

## **City of Rockville**

**Analysis of Investment Performance  
through September 30, 2007**



**George Kiriakos**  
**Vice President**

*November 2007*



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November 26, 2007

Board of Trustees  
City of Rockville  
111 Maryland Avenue  
Rockville, MD 20854

Dear Trustees:

This report presents our updated analysis of City of Rockville's investment performance and traces the growth of assets through September 30, 2007. It is based on data provided to us by your custodian and the various investment managers. The report illustrates the investment performance of the overall Fund and also shows results by asset class and by individual manager in comparison with the various performance benchmarks defined in the Fund's statement of guidelines and objectives.

We hope you find this report useful as a tool for monitoring the performance of the Fund as well as a basis for discussion of the investment issues surrounding the investment program. We look forward to reviewing this report with you and answering any questions you may have.

Sincerely,

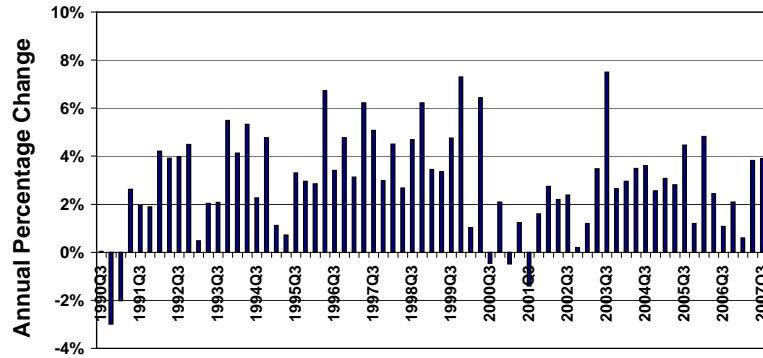
George Kiriakos  
Vice President

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## Macroeconomic Themes

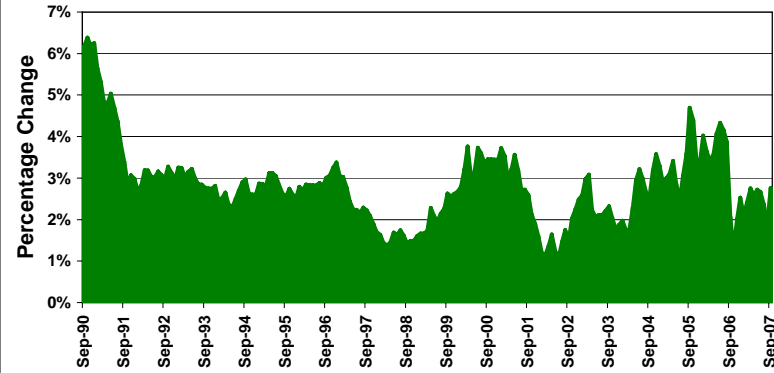
**GDP**



Source: Moody's Economy.com

- Q3 2007 GDP advanced at a 3.9% annualized rate, up from a revised 3.8% in Q2 2007. This is well above consensus expectations. The strong growth during Q3 was due to consumer spending and exports, with imports, homebuilding, and slower growth in non-residential construction offsetting much of this.
- Despite the strong Q3, housing remains a major weight on growth. Real investment in residential structures fell 20% on an annualized basis, compared to 12% during the Q2. Exports are a source of growth due to the expanding global economy and falling dollar.

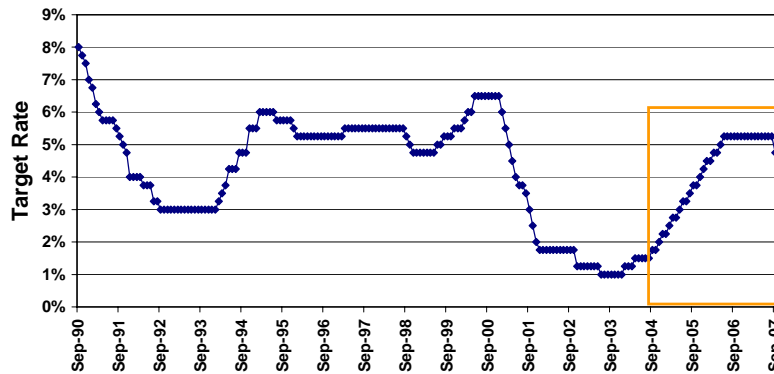
**CPI: Percentage Change Year over Year**



Source: Moody's Economy.com

- Energy prices continue to be volatile, leading to volatility in headline inflation amid a gradual moderation of the core rate of inflation. On a year ago basis, headline CPI is up by 2.8% in September.
- The core index, which excludes food and energy prices, increased by 0.2% in Q3. Over the past year, core CPI registered a 2.2% rate, which was unchanged from the previous month. While the headline reading came in 10 bps higher than the consensus had predicted, the core index was in line with expectations.

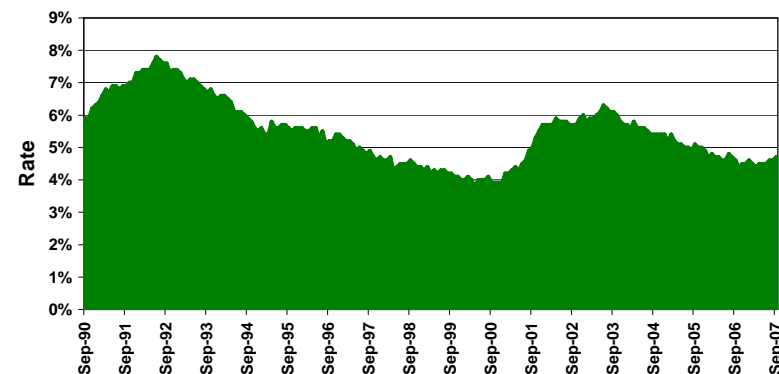
**Fed Funds Target Rate**



Source: Moody's Economy.com

- In response to tighter credit conditions that present growing risks to economic growth, the FOMC cut the Fed Funds Target Rate by 50 bps from 5.25% to 4.75% at the September 18 FOMC meeting. The rate cut was intended to help prevent some of the adverse effects on the broader economy that might otherwise arise from the disruptions in financial markets and to promote moderate growth over time.

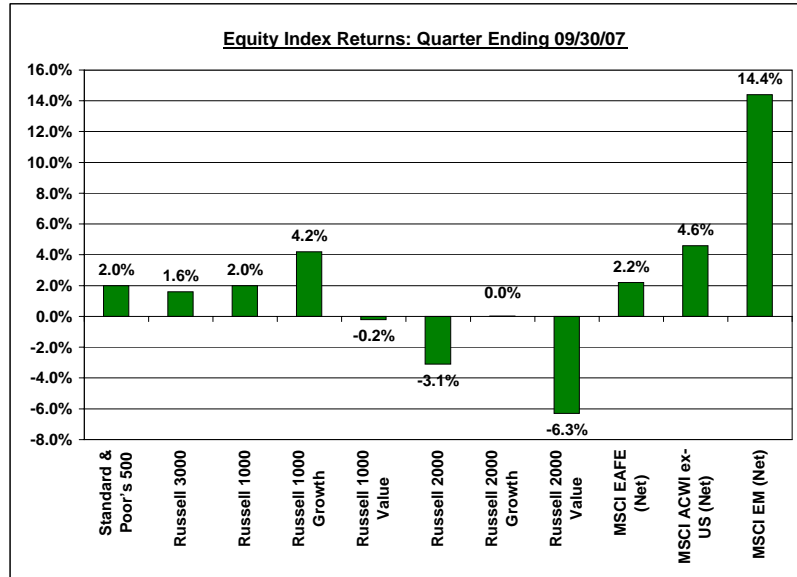
**Unemployment Rate**



Source: Moody's Economy.com

- The unemployment rate increased to 4.7%; however, employment growth (as measured by jobs created), rebounded in Sept and was revised upward for August.
- 110,000 jobs were added in Sept, following increases of 89,000 and 93,000 in Aug and July, respectively; however, the growth rate continued to weaken due to the housing market downturn. Concerns remain about near-term employment since interest rate resets are now at their peak and more foreclosures can be expected. Building activity will likely continue to weaken, and it is also likely more financial service providers will cut back payrolls.

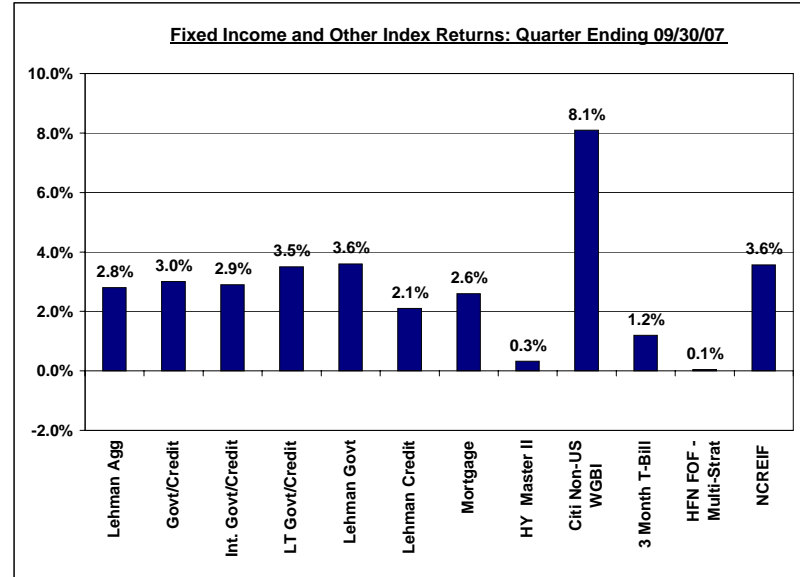
## Selected Equity and Fixed Income Index Rates of Return for Periods Ended September 30, 2007



### Equity Indices

	Quarter	YTD	1-year	3-year	5-year	10-year
Standard & Poor's 500	2.0%	9.1	16.4	13.1	15.5	6.6
Russell 3000	1.6%	8.8	16.5	13.7	16.2	6.8
Russell 1000	2.0%	9.3	16.9	13.8	16.0	6.9
Russell 1000 Growth	4.2%	12.7	19.4	12.2	13.8	4.1
Russell 1000 Value	-0.2%	6.0	14.5	15.3	18.1	8.8
Russell 2000	-3.1%	3.2	12.3	13.4	18.8	7.2
Russell 2000 Growth	0.0%	9.4	18.9	14.1	18.7	3.7
Russell 2000 Value	-6.3%	-2.7	6.1	12.5	18.7	10.1
MSCI EAFE (Net)	2.2%	13.2	24.9	23.2	23.6	8.0
MSCI ACWI ex-US (Net)	4.6%	17.4	30.5	26.0	25.8	9.2*
MSCI EM (Net)	14.4%	34.5	58.2	40.8	38.7	11.9*

\*For 10-year performance, Gross returns are provided.



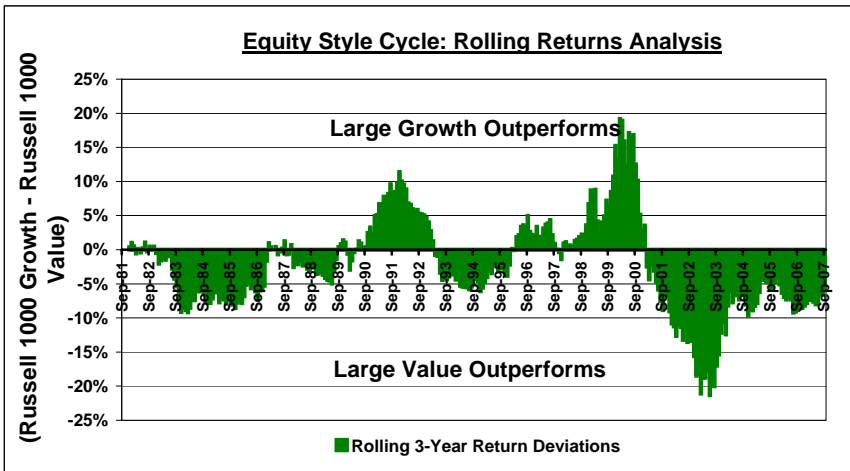
### Fixed Income Indices

	Quarter	YTD	1-year	3-year	5-year	10-year
Lehman Aggregate	2.8%	3.8	5.1	3.9	4.1	6.0
Lehman Govt/Credit	3.0%	4.0	5.1	3.7	4.2	6.0
Lehman Int. Govt/Credit	2.9%	4.4	5.4	3.5	3.8	5.7
Lehman Long Govt/Credit	3.5%	2.6	3.7	4.3	5.4	7.2
Lehman Govt	3.6%	4.8	5.6	3.8	3.5	5.9
Lehman Credit	2.1%	2.9	4.2	3.5	5.0	6.1
Lehman Mortgage	2.6%	3.7	5.4	4.3	4.1	5.8
ML High Yield Master II	0.3%	3.4	7.7	7.5	12.5	5.9
Citigroup Non-US WGBI (Un)	8.1%	7.3	9.5	4.8	8.0	5.8
Citigroup 3 Month T-Bill	1.2%	3.7	5.0	4.0	2.8	3.7

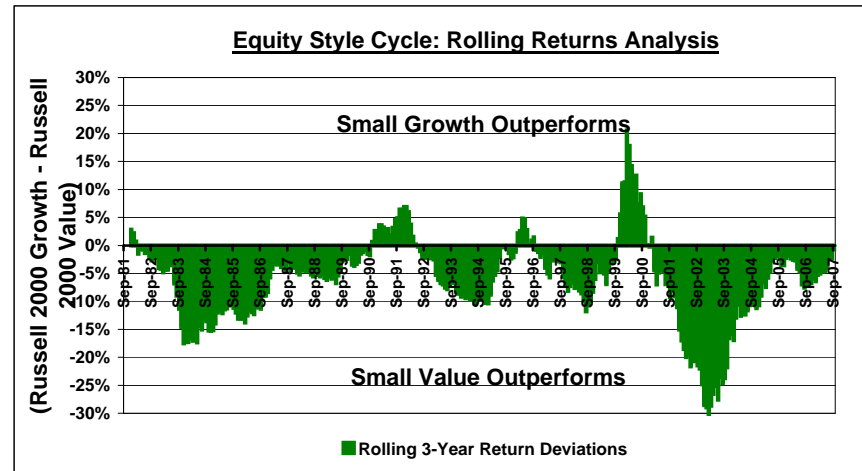
### Other Indices

	Quarter	YTD	1-year	3-year	5-year	10-year
HFN HFOF Multi-Strat	0.1%	7.6	13.1	9.7	8.9	9.3
NCREIF Property Index	3.6%	12.2	17.3	18.0	14.8	13.1

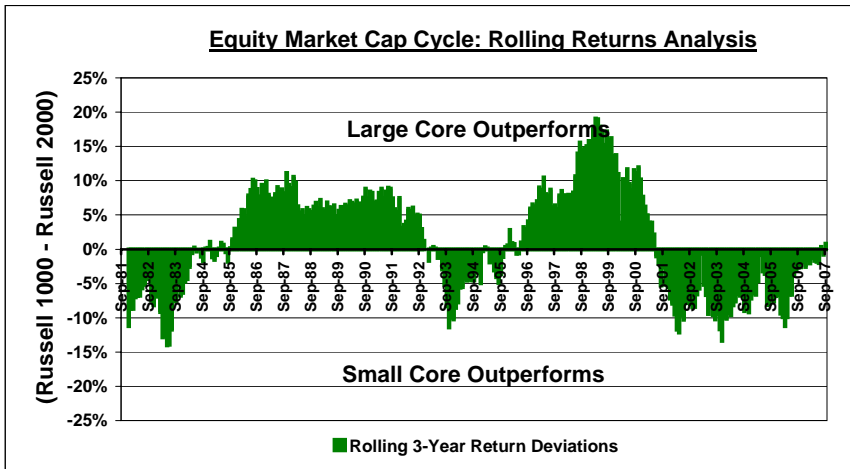
## Equity Themes



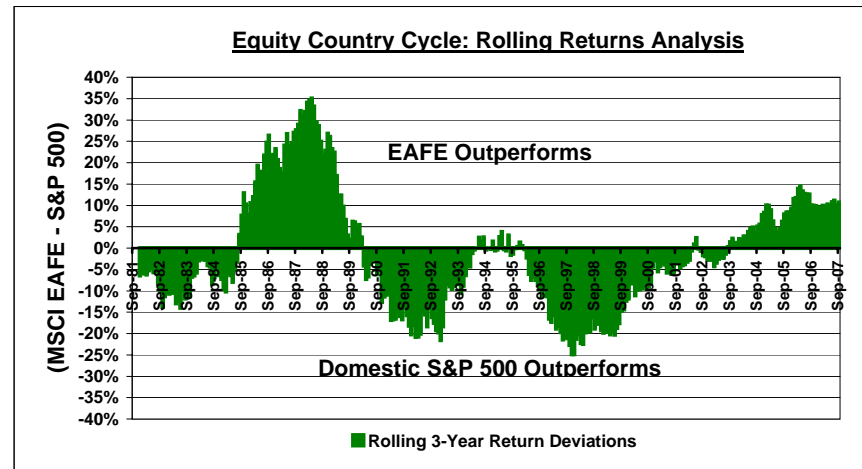
- Index Inception (i.e., January 1979): R1000V: **14.4%**; R1000G: **12.0%** (+243 bps)
- After 7 consecutive years of outperformance by the R1000V relative to the R1000G, the R1000G is currently ahead of the R1000V for the trailing quarter (+445 bps) and year-to-date (+671 bps) time periods.



- Index Inception (i.e., January 1979): R2000V: **15.4%**; R2000G: **10.4%** (+498 bps)
- The R2000V has outperformed the R2000G in 7 of last 10 calendar years, including 6 of the last 7; however, the R2000G has outperformed the R2000V during the year-to-date (+1205 bps) and trailing 1-year (+1285 bps) time periods.



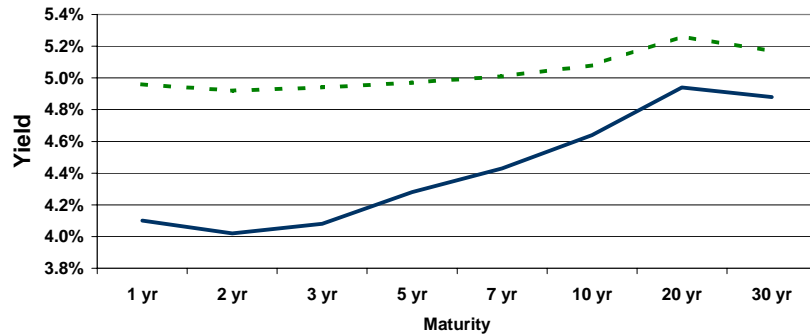
- Index Inception (i.e., January 1979): R1000: **13.4%**; R2000: **13.1%** (+35 bps)
- The R2000 has outperformed the R1000 in 7 of last 8 calendar years; however, the R1000 outperformed the R2000 for the year-to-date (+614 bps) and trailing 1-year (+456 bps) periods.



- Index Inception (i.e., January 1979): S&P 500: **13.4%**; EAFE: **11.5%** (+190 bps)
- The EAFE has outperformed the S&P 500 in 6 of last 10 calendar years, including the last 5 in a row and is ahead for the year-to-date (+402 bps) and trailing 1-year (+842 bps) time periods.

## Fixed Income Themes

**Treasury Yield Curve**

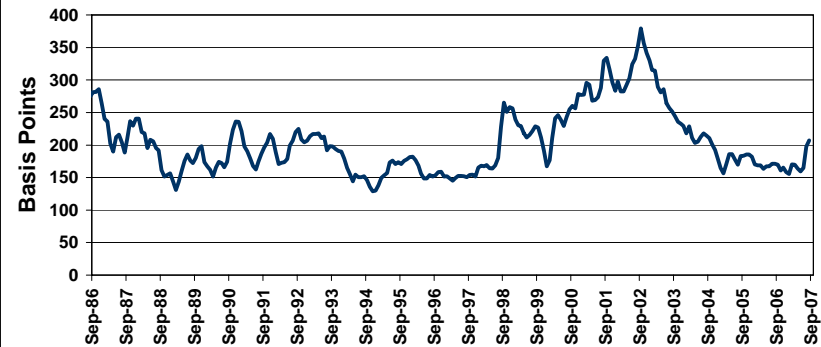


Source: U.S. Treasury

--- 6/29/07    — 9/28/07

- The yield curve steepened during Q3 and ended the quarter on a positive note as the Government held 2 and 5 yr Treasury auctions, which received strong demand. The 5 yr auction saw a healthy bid-to-cover ratio of 2.86, well above the last eight auctions' average of 2.41. The strong indirect bid of 45.2% vs. the last eight months' average of 23.7%, suggests that foreign investors still have an appetite for Treasuries despite the weakening dollar.

**Moody's Corporate-Treasury Bond Spread  
Baa 10-Yr Constant Maturities**



Source: Moody's Economy.com

- Credit spreads widened in Q3 as new Treasury securities were met with increased demand and new issuance of junk bonds drastically declined.
- According to Thomson Financial, U.S. companies issued just over \$9B in junk bonds in the quarter, the worst on record, down from \$56.5B in Q2.
- For the quarter, credit spreads widened by 48 bps.

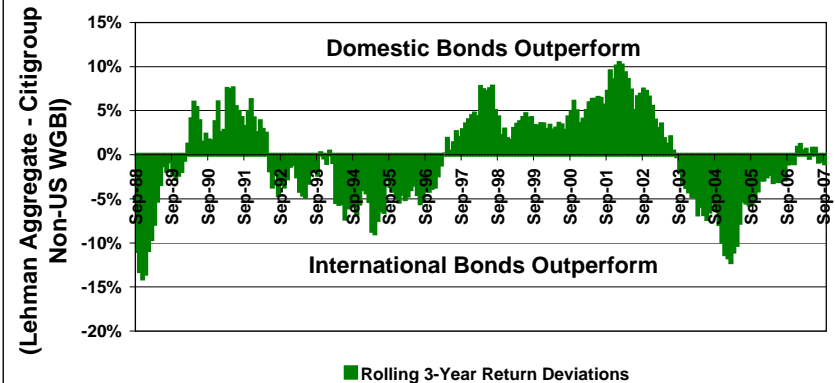
**Interest Rate Trends  
Moody's AAA Seasoned**



Source: Moody's Economy.com

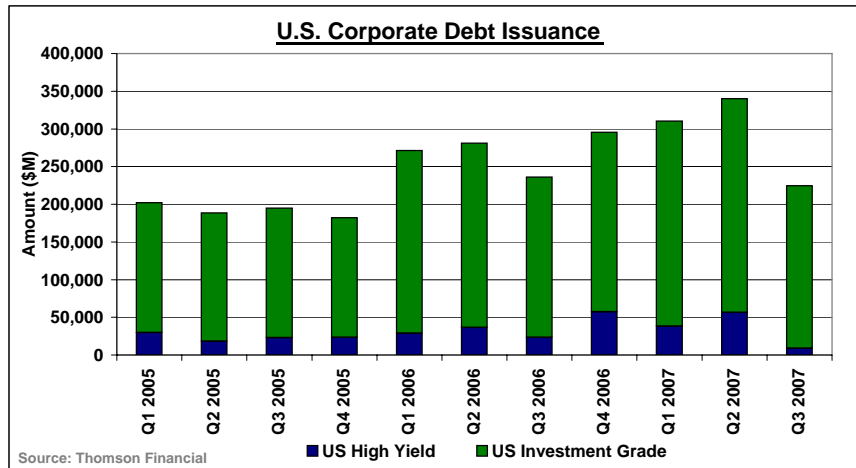
- During the first two months of Q3, there was a flight to quality as investors shied away from junk bonds, high-yield, and low-rated debt. However, during September, risk was re-priced and after the FOMC rate cut, investors renewed their focus on lower-rated securities.
- Corporate bond yields ended the quarter 5 bps lower, at 5.74%.

**Fixed Income Cycle: Rolling Returns Analysis**

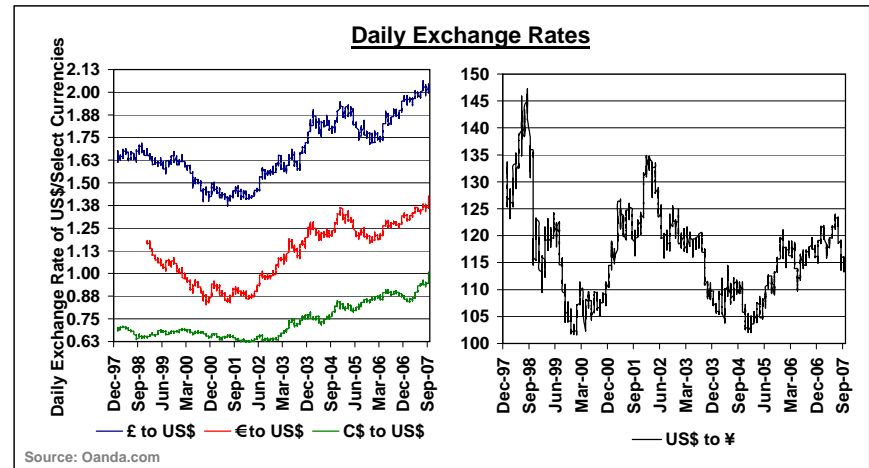


- International bonds had a strong Q3, pushing international bonds ahead of U.S. bonds for the 1-year (9.5% vs. 5.1%) and trailing 3-year (4.8% vs. 3.9%) periods. Domestic bonds remained ahead of international bonds (6.0% vs. 5.7%) for the 10-year annualized period.

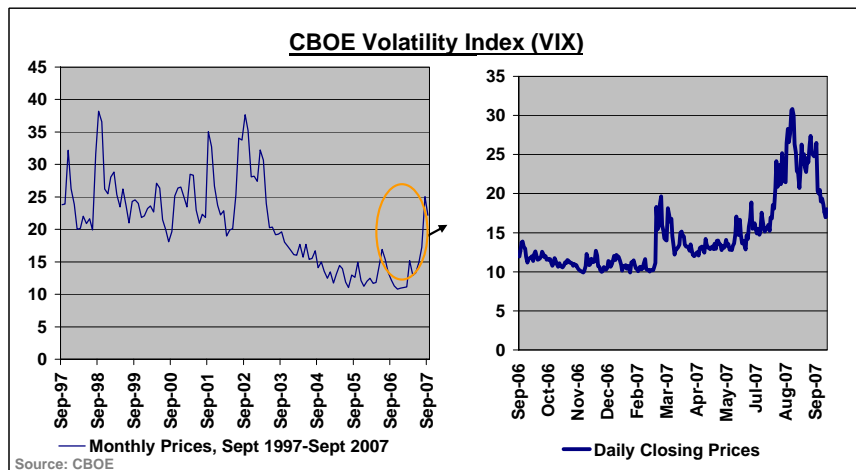
## Themes of the Third Quarter



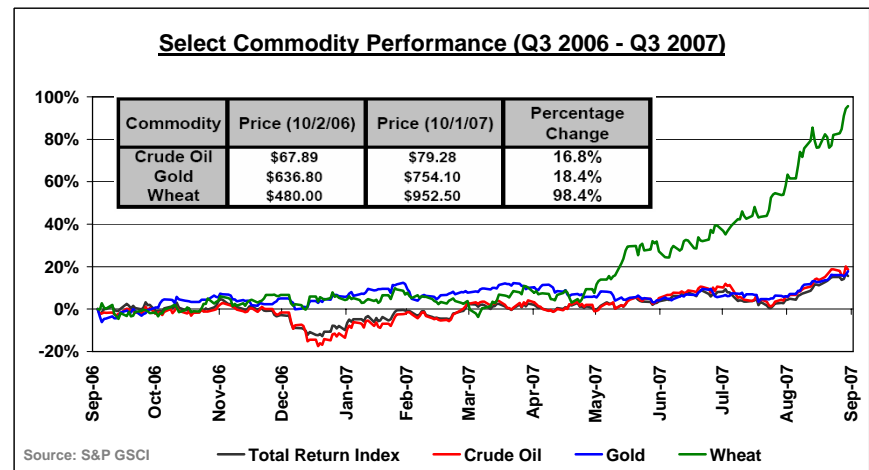
- Corporate-bond issuance declined during Q3 as problems with risky mortgages spread to the broader credit markets.
- Investors stayed away from junk bonds, high-yield, low rated debt issued by companies with risky credit profiles. U.S. companies issued roughly \$9B in junk bonds during the quarter, the worst on record. This is down from \$56.5B in Q2.



- The British Pound (£) maintained its strength versus the U.S. Dollar, ending Q3 2007 at \$2.04/£1.0. The U.S. Dollar (US\$) continued to weaken in September, hitting an all-time low versus the Euro of \$1.42/€1.0. The Canadian Dollar (C\$) hit parity with the U.S. Dollar for the first time since 1976. The Japanese Yen (¥) reached a high of ¥113.43/\$1.0, the highest level since June 2006.



- The volatility in equities markets, as measured by the Chicago Board Options Exchange Volatility Index or VIX increased sharply during Q3.
- The Index reached a high of 30.83 on the close of August 16, 2007 after closing at 14.72 on July 6, 2007. However, the VIX trended downward after the Federal Reserve's September 18 interest rate cut.



- The S&P GSCI Commodity Index rose 11.6% in the third quarter.
- Rising prices and surging demand for crops are impacting the price of many commodities, including barley, eggs, cheese, oats, rice, peas, sunflower, lentils, and wheat, which is trading at its highest level ever.
- Powerful new sources of demand have emerged, as growing economies in Asia and Latin America are enabling hundreds of millions of people to spend more on food.



### **Investment Manager Roster**

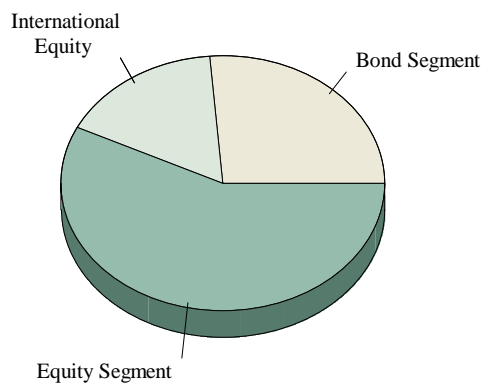
Investment Manager	Mandate	Benchmark	Inception Date
Principal	Large Cap	S&P 500	12/31/1994
Principal	International Core	MSCI Net EAFE	12/31/1994
Principal	Fixed Income Core	Lehman Aggregate Bond Index	12/31/1994

### **Asset Allocation Policy**

Asset Class	Minimum	Target	Maximum
<b>Domestic Equity</b>	<b>45%</b>	<b>50%</b>	<b>55%</b>
International Core	10%	15%	20%
Fixed Income Core	30%	35%	40%

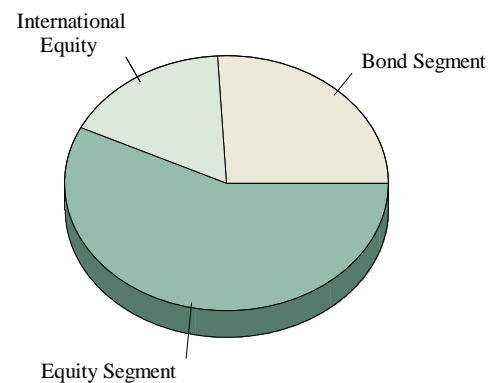
# COMPOSITE ASSET ALLOCATION

TOTAL MARKET VALUE  
AS OF JUNE 30, 2007  
\$65,432,299



	Value	Percent
Equity Segment	37,445,405	57.23
Bond Segment	17,203,813	26.29
International Equity	10,783,081	16.48

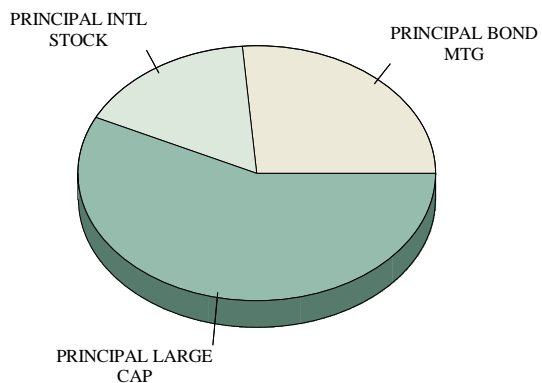
TOTAL MARKET VALUE  
AS OF SEPTEMBER 30, 2007  
\$66,444,293



	Value	Percent
Equity Segment	38,007,491	57.20
Bond Segment	17,190,979	25.87
International Equity	11,245,823	16.93

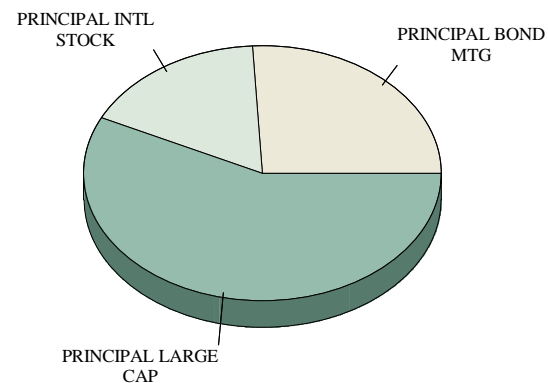
# COMPOSITE MANAGER ASSET ALLOCATION

TOTAL MARKET VALUE  
ON JUNE 30, 2007  
\$65,432,299



	Value	Percent
PRINCIPAL LARGE CAP	37,445,405	57.23
PRINCIPAL BOND MTG	17,203,813	26.29
PRINCIPAL INTL STOCK	10,783,081	16.48

TOTAL MARKET VALUE  
ON SEPTEMBER 30, 2007  
\$66,444,293



	Value	Percent
PRINCIPAL LARGE CAP	38,007,491	57.20
PRINCIPAL BOND MTG	17,190,979	25.87
PRINCIPAL INTL STOCK	11,245,823	16.93

### Profile

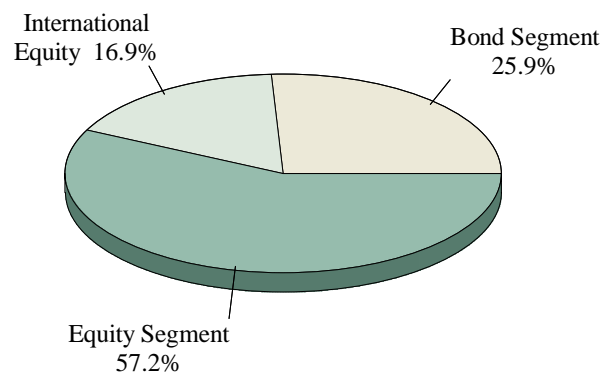
COMPOSITE	
Benchmark:	POLICY INDEX
Inception Date:	December 31, 2001

### Account Reconciliation

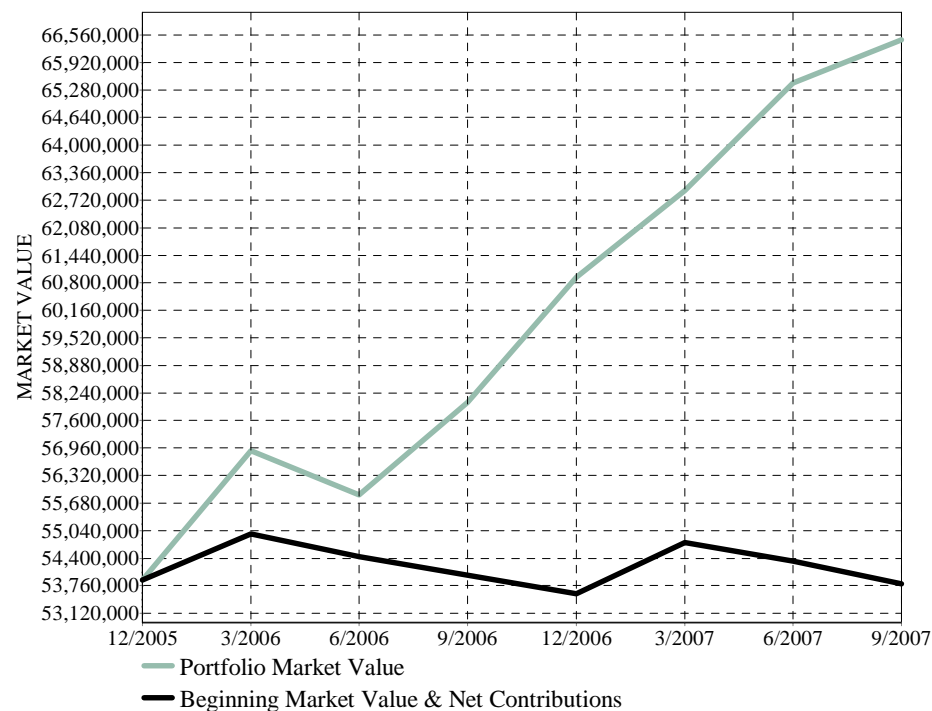
Source	Quarter	Year to Date	12/2005 - 6/2007
Beginning Value	65,432,299	60,929,022	53,896,652
Net Flows	-537,907	225,913	-98,293
Investment G/L	1,549,901	5,289,358	12,645,934
Ending Value	66,444,293	66,444,293	66,444,293

### Asset Allocation

Total Market Value  
As Of September 30, 2007  
\$66,444,293



### Source Of Portfolio Growth

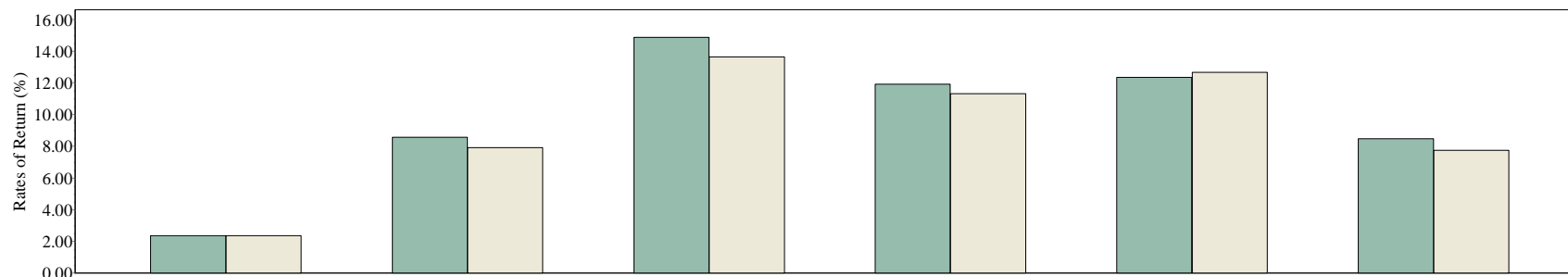


### COMPOSITE PERFORMANCE SUMMARY

	Qtr	Ytd	1 Yr	3 Yr	5 Yr	Incept	Market Value	% of Assets
<b>COMPOSITE</b>	2.38	8.59	14.88	11.93	12.36	8.48	\$66,444,293	
POLICY INDEX	2.37	7.93	13.66	11.34	12.68	7.76		
<b>PRINCIPAL LARGE CAP</b>	1.96	8.94	16.13	12.95	15.30	-	\$38,007,491	57.20%
S&P 500	2.03	9.13	16.44	13.13	15.45	-		
Universe Median	2.07	9.65	16.90	14.02	16.07	-		
Quartile Ranking	53	60	63	71	65	-		
<b>PRINCIPAL INTL STOCK</b>	4.77	18.19	31.80	30.03	27.20	-	\$11,245,823	16.93%
MSCI NET EAFE	2.18	13.15	24.86	23.24	23.56	-		
Universe Median	3.03	15.86	28.82	25.94	25.95	-		
Quartile Ranking	34	35	36	27	40	-		
<b>PRINCIPAL BOND MTG</b>	1.79	2.55	4.12	3.98	4.73	-	\$17,190,979	25.87%
LB AGGREGATE BOND	2.85	3.84	5.13	3.86	4.13	-		
Universe Median	2.74	3.96	5.26	3.97	4.24	-		
Quartile Ranking	94	99	98	49	17	-		

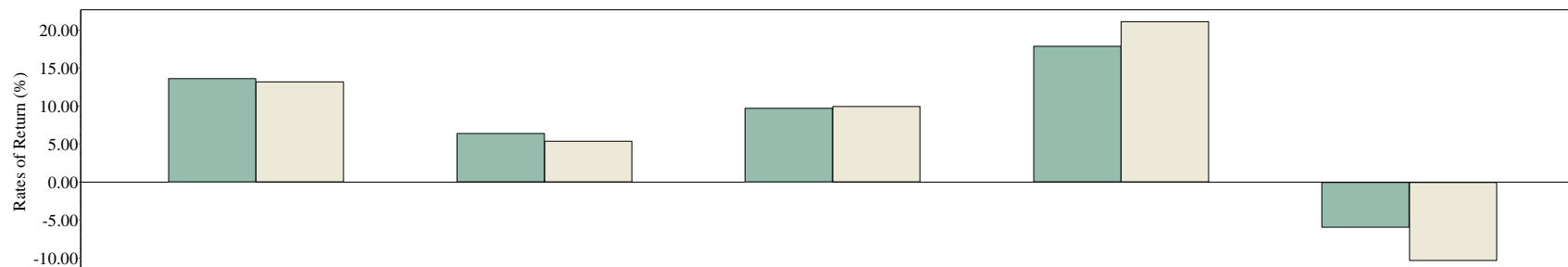
**COMPOSITE - TOTAL FUND**  
**12/2001 Through 9/2007**

**Trailing Returns**



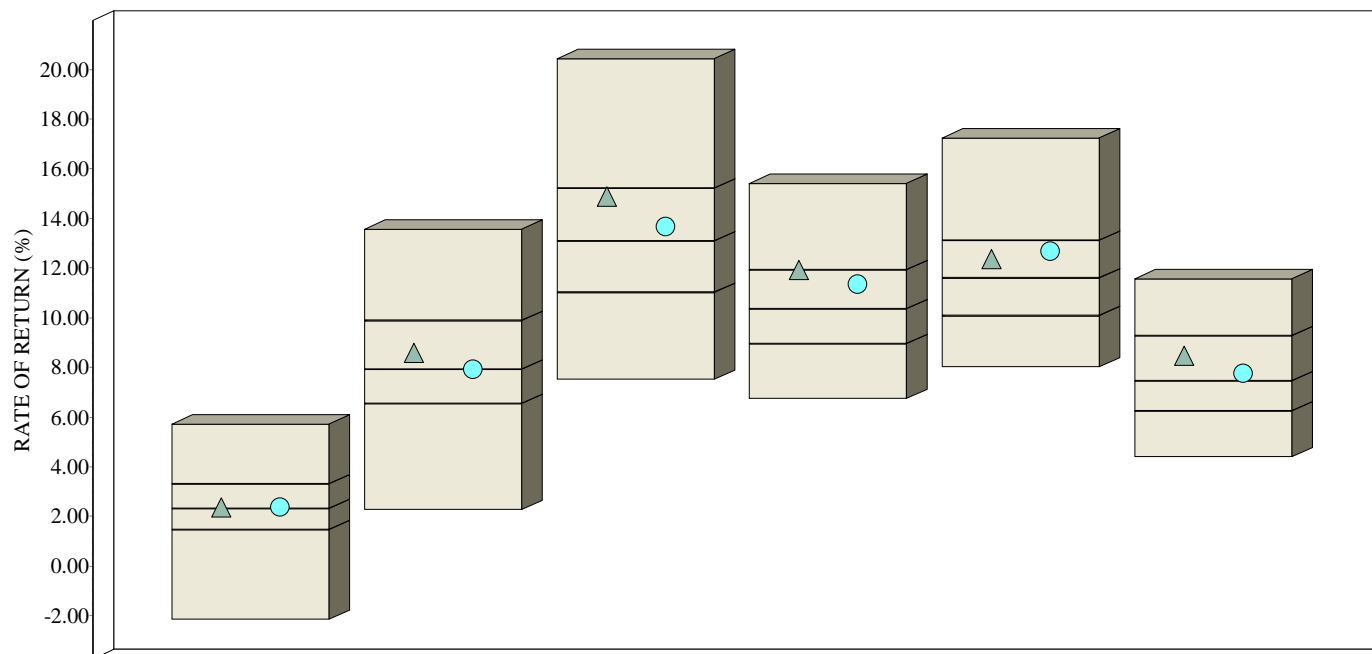
	1 Qtr	YTD	1 Yr	3 Yr	5 Yr	Since Inception
TOTAL FUND	2.38	8.59	14.88	11.93	12.36	8.48
POLICY INDEX	2.37	7.93	13.66	11.34	12.68	7.76
Difference	0.01	0.66	1.22	0.59	-0.32	0.72

**Calendar Year Returns**



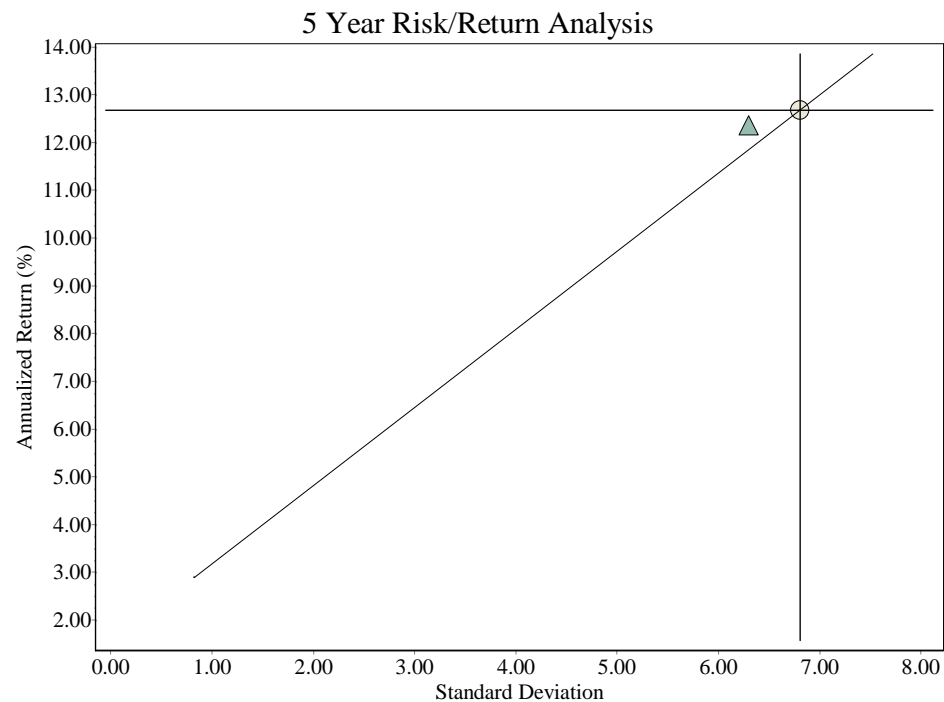
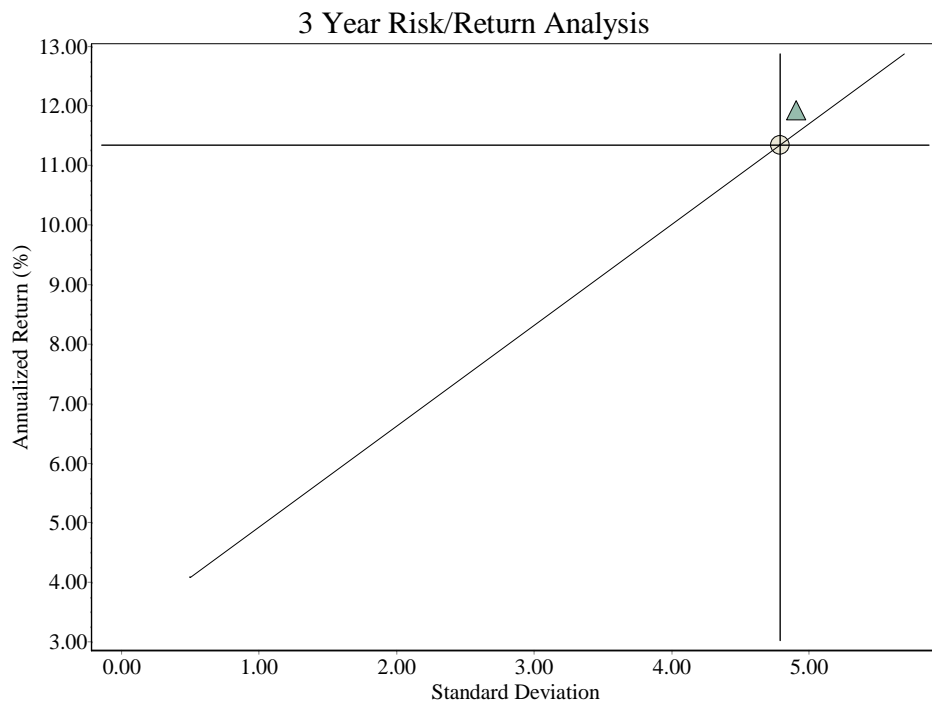
	2006	2005	2004	2003	2002
TOTAL FUND	13.65	6.43	9.71	17.89	-6.01
POLICY INDEX	13.20	5.40	9.97	21.12	-10.38
Difference	0.45	1.04	-0.26	-3.22	4.37

# QUARTILE RANKING ANALYSIS TOTAL FUND AGAINST BALANCED MANAGERS



	LATEST QUARTER		CALENDAR YTD		ONE YEAR		THREE YEARS		FIVE YEARS		SINCE INCEPTION	
HIGHEST VALUE	5.72		13.56		20.43		15.41		17.22		11.55	
FIRST QUARTILE	3.32		9.87		15.22		11.91		13.12		9.28	
MEDIAN VALUE	2.32		7.92		13.09		10.36		11.60		7.45	
THIRD QUARTILE	1.46		6.54		11.01		8.95		10.08		6.23	
LOWEST VALUE	-2.16		2.25		7.51		6.73		8.01		4.38	
MEAN	2.28		8.17		13.17		10.51		11.77		7.66	
	LATEST QUARTER		CALENDAR YTD		ONE YEAR		THREE YEARS		FIVE YEARS		SINCE INCEPTION	
	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK
▲ COMPOSITE	2.38	46	8.59	42	14.88	28	11.93	24	12.36	39	8.48	34
● POLICY INDEX	2.37	46	7.93	49	13.66	41	11.34	31	12.68	34	7.76	48

## COMPOSITE RETURN VS RISK





**COMPOSITE  
TOTAL FUND MARKET VALUES AND CASH FLOWS**

Period Ending	Beginning Value	Net Flows	Investment Gain/Loss	Ending Value	Return (%)
Mar 2002	N/A	0	0	N/A	0.28
Jun 2002	N/A	0	41,225,900	41,225,900	-3.50
Sep 2002	41,225,900	0	-3,800,429	37,425,471	-7.84
Dec 2002	37,425,471	0	1,808,362	39,233,833	5.39
Mar 2003	39,233,833	0	-185,531	39,048,302	-1.93
Jun 2003	39,048,302	0	3,648,601	42,696,903	10.03
Sep 2003	42,696,903	0	289,805	42,986,708	1.36
Dec 2003	42,986,708	0	3,093,328	46,080,036	7.79
Mar 2004	46,080,036	0	2,258,325	48,338,361	2.56
Jun 2004	48,338,361	0	-352,977	47,985,384	-0.23
Sep 2004	47,985,384	0	-166,674	47,818,710	0.45
Dec 2004	47,818,710	0	3,057,601	50,876,311	6.74
Mar 2005	50,876,311	0	487,401	51,363,712	-1.31
Jun 2005	51,363,712	0	443,603	51,807,315	1.99
Sep 2005	51,807,315	0	1,424,511	53,231,826	3.53
Dec 2005	53,231,826	-398,198	1,063,024	53,896,652	2.14
Mar 2006	53,896,652	1,065,642	1,939,241	56,901,535	3.59
Jun 2006	56,901,535	-531,862	-499,858	55,869,815	-0.88
Sep 2006	55,869,815	-424,358	2,576,336	58,021,793	4.64
Dec 2006	58,021,793	-433,628	3,340,857	60,929,022	5.79
Mar 2007	60,929,022	1,188,243	828,248	62,945,513	1.36
Jun 2007	62,945,513	-424,423	2,911,209	65,432,299	4.65
Sep 2007	65,432,299	-537,907	1,549,901	66,444,293	2.38

**COMPOSITE  
QUARTERLY ASSET ALLOCATION (%)**

	BOND	EQUITY	INTERNATIONAL EQUITY
Period Ending	Actual Weight	Actual Weight	Actual Weight
12/31/2006	28.68	55.94	15.38
03/31/2007	28.39	55.90	15.71
06/30/2007	26.29	57.23	16.48
09/30/2007	25.87	57.20	16.93

### Profile

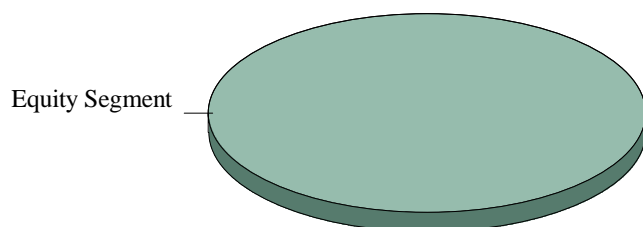
PRINCIPAL LARGE CAP STOCK INDEX	
Style:	Large Cap
Benchmark:	S&P 500
Universe:	Large Cap Managers
Inception Date:	December 31, 1994

### Account Reconciliation

Source	Quarter	Year to Date	12/2005 - 6/2007
Beginning Value	37,445,405	34,083,384	28,505,988
Net Flows	-170,279	799,970	1,865,520
Investment G/L	732,365	3,124,137	7,635,983
Ending Value	38,007,491	38,007,491	38,007,491

### Asset Allocation

Total Market Value  
As Of September 30, 2007  
\$38,007,491



S&P 500: 100% S&P 500

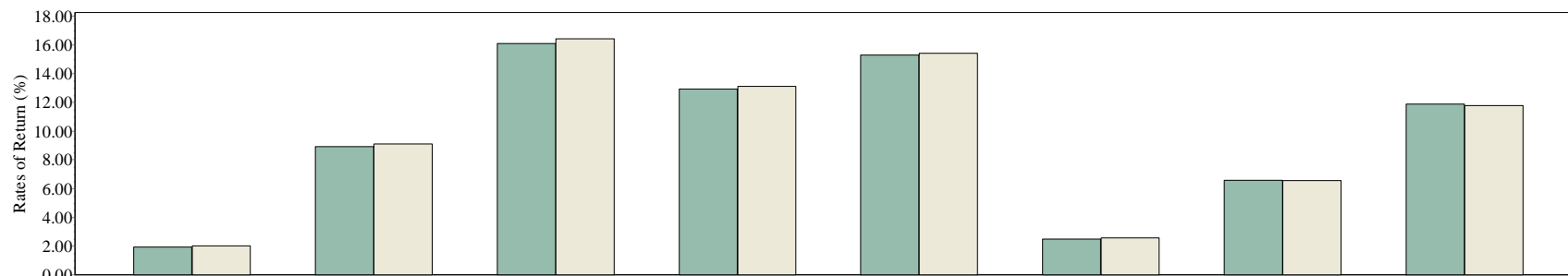
### Source Of Portfolio Growth



### PRINCIPAL LARGE CAP STOCK INDEX - TOTAL FUND

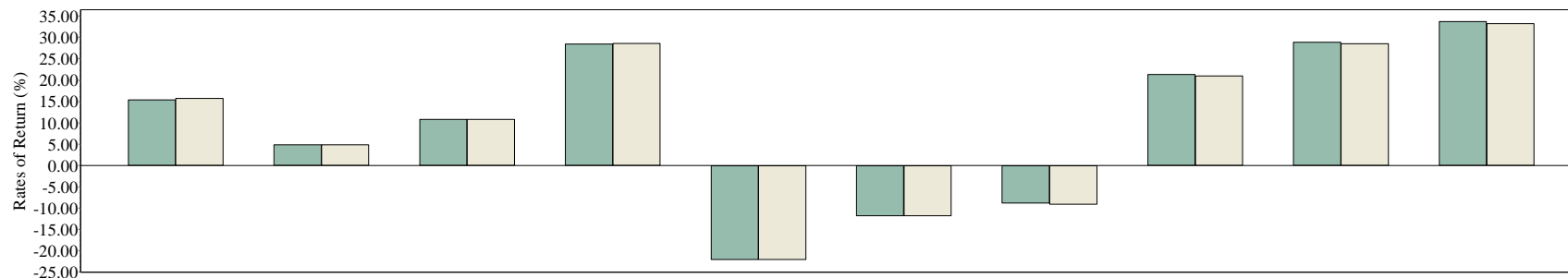
12/1994 Through 9/2007

#### Trailing Returns



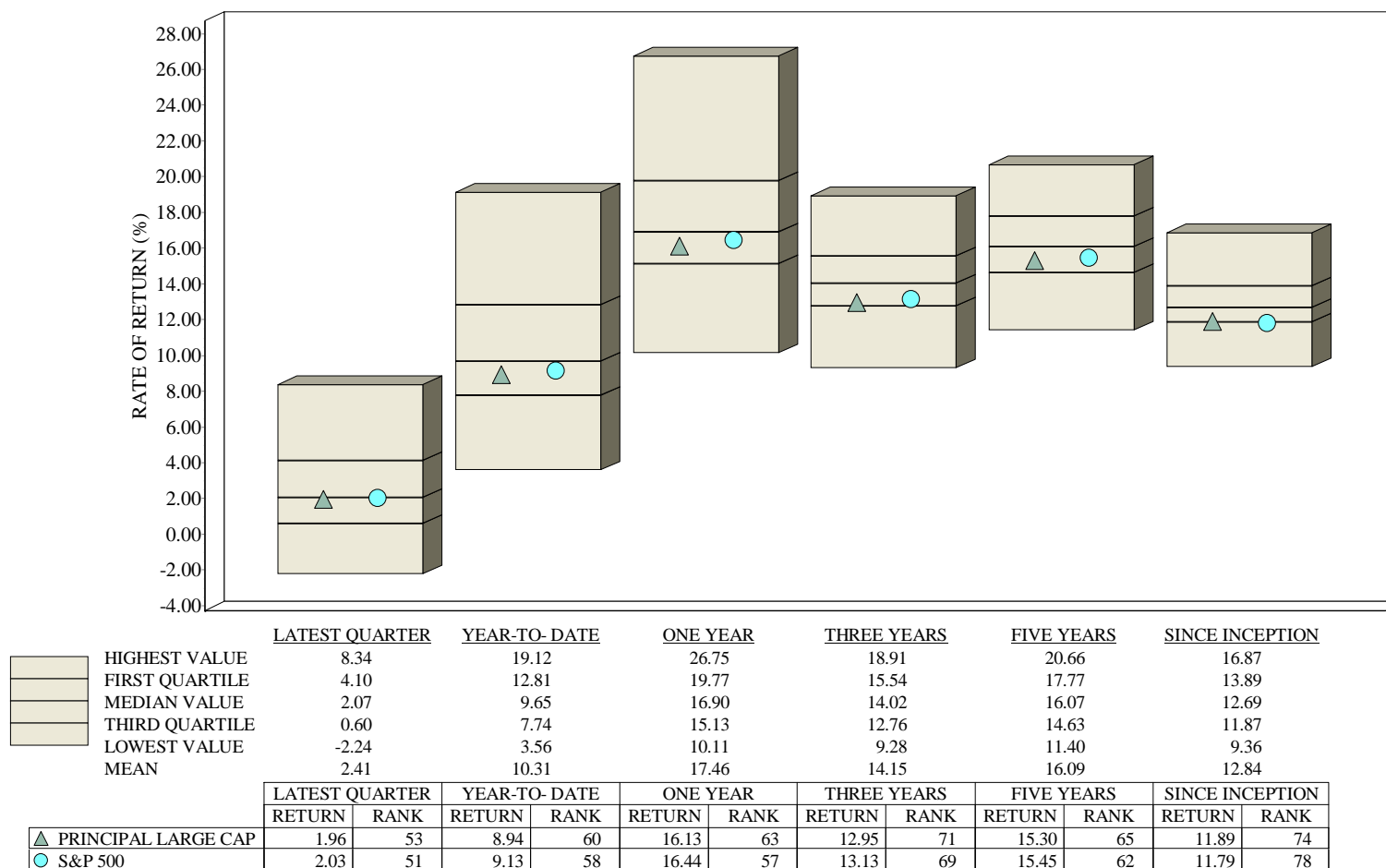
	1 Qtr	YTD	1 Yr	3 Yr	5 Yr	7 Yr	10 Yr	Since Inception
TOTAL FUND	1.96	8.94	16.13	12.95	15.30	2.52	6.60	11.89
S&P 500	2.03	9.13	16.44	13.13	15.45	2.60	6.57	11.79
Difference	-0.07	-0.19	-0.32	-0.19	-0.15	-0.08	0.03	0.09

#### Calendar Year Returns



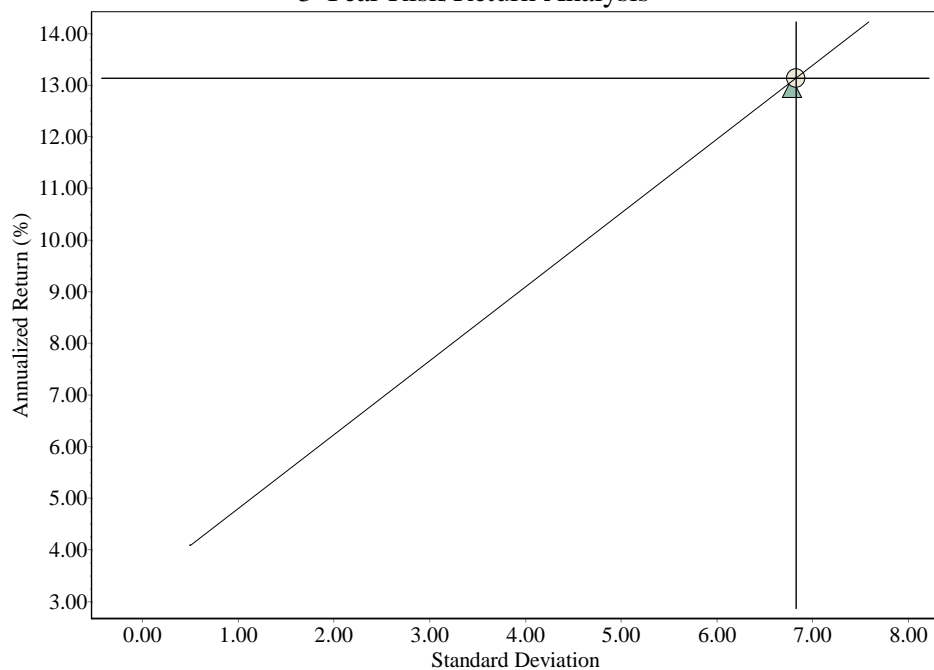
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
TOTAL FUND	15.44	4.92	10.83	28.53	-22.12	-11.90	-8.83	21.41	28.98	33.74
S&P 500	15.80	4.90	10.87	28.69	-22.11	-11.88	-9.11	21.04	28.58	33.36
Difference	-0.36	0.02	-0.04	-0.17	-0.01	-0.02	0.27	0.37	0.39	0.38

# QUARTILE RANKING ANALYSIS TOTAL FUND AGAINST LARGE CAP MANAGERS



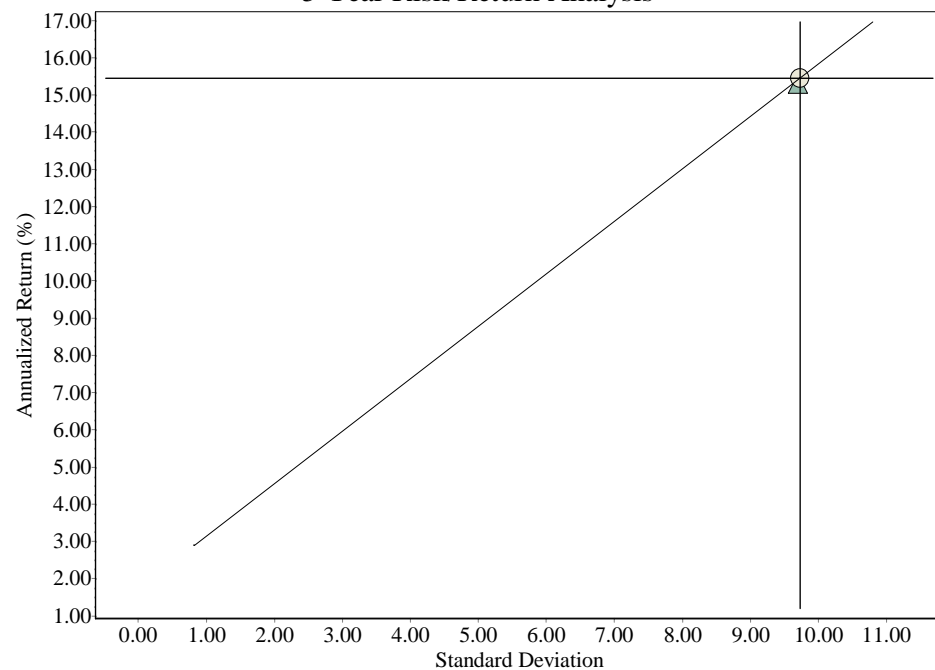
# PRINCIPAL LARGE CAP STOCK INDEX RETURN VS RISK

3 Year Risk/Return Analysis



	Return	Std Dev	Alpha	Beta	R-Squared
▲ PRINCIPAL LARGE CAP	12.95	6.79	-0.13	0.99	99.99
○ S&P 500	13.13	6.83	0.00	1.00	100.00

5 Year Risk/Return Analysis



	Return	Std Dev	Alpha	Beta	R-Squared
▲ PRINCIPAL LARGE CAP	15.30	9.69	-0.10	1.00	99.99
○ S&P 500	15.45	9.73	0.00	1.00	100.00

**PRINCIPAL LARGE CAP STOCK INDEX  
TOTAL FUND MARKET VALUES AND CASH FLOWS**

Period Ending	Beginning Value	Net Flows	Investment Gain/Loss	Ending Value	Return (%)
Mar 2002	N/A	0	0	N/A	0.25
Jun 2002	N/A	0	17,215,641	17,215,641	-13.39
Sep 2002	17,215,641	0	-2,935,912	14,279,729	-17.27
Dec 2002	14,279,729	0	1,282,740	15,562,469	8.42
Mar 2003	15,562,469	0	451,032	16,013,501	-3.16
Jun 2003	16,013,501	0	3,236,286	19,249,787	15.36
Sep 2003	19,249,787	0	551,812	19,801,599	2.63
Dec 2003	19,801,599	0	2,464,558	22,266,157	12.10
Mar 2004	22,266,157	0	1,625,488	23,891,645	1.67
Jun 2004	23,891,645	0	482,564	24,374,209	1.72
Sep 2004	24,374,209	0	-410,246	23,963,963	-1.87
Dec 2004	23,963,963	0	2,293,569	26,257,532	9.21
Mar 2005	26,257,532	0	162,832	26,420,364	-2.12
Jun 2005	26,420,364	84,114	341,273	26,845,751	1.37
Sep 2005	26,845,751	85,603	943,077	27,874,431	3.59
Dec 2005	27,874,431	74,278	557,279	28,505,988	2.08
Mar 2006	28,505,988	820,773	1,174,698	30,501,459	4.11
Jun 2006	30,501,459	73,642	-458,574	30,116,527	-1.50
Sep 2006	30,116,527	86,022	1,688,372	31,890,921	5.60
Dec 2006	31,890,921	85,113	2,107,350	34,083,384	6.60
Mar 2007	34,083,384	892,278	208,451	35,184,113	0.61
Jun 2007	35,184,113	77,971	2,183,321	37,445,405	6.20
Sep 2007	37,445,405	-170,279	732,365	38,007,491	1.96

**PRINCIPAL LARGE CAP STOCK INDEX  
 QUARTERLY ASSET ALLOCATION (%)**

**EQUITY**

Period Ending	Actual Weight
12/31/2005	100.00
03/31/2006	100.00
06/30/2006	100.00
09/30/2006	100.00
12/31/2006	100.00
03/31/2007	100.00
06/30/2007	100.00



### Profile

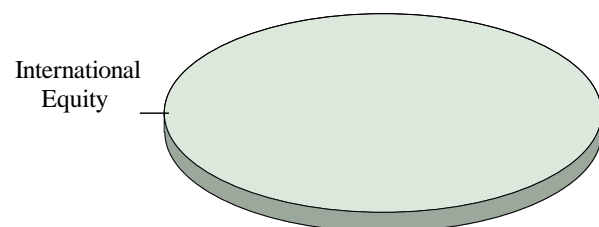
PRINCIPAL INTERNATIONAL STOCK	
Style:	Foreign Equity
Benchmark:	MSCI NET EAFE
Universe:	Foreign Equity Managers
Inception Date:	December 31, 1994

### Account Reconciliation

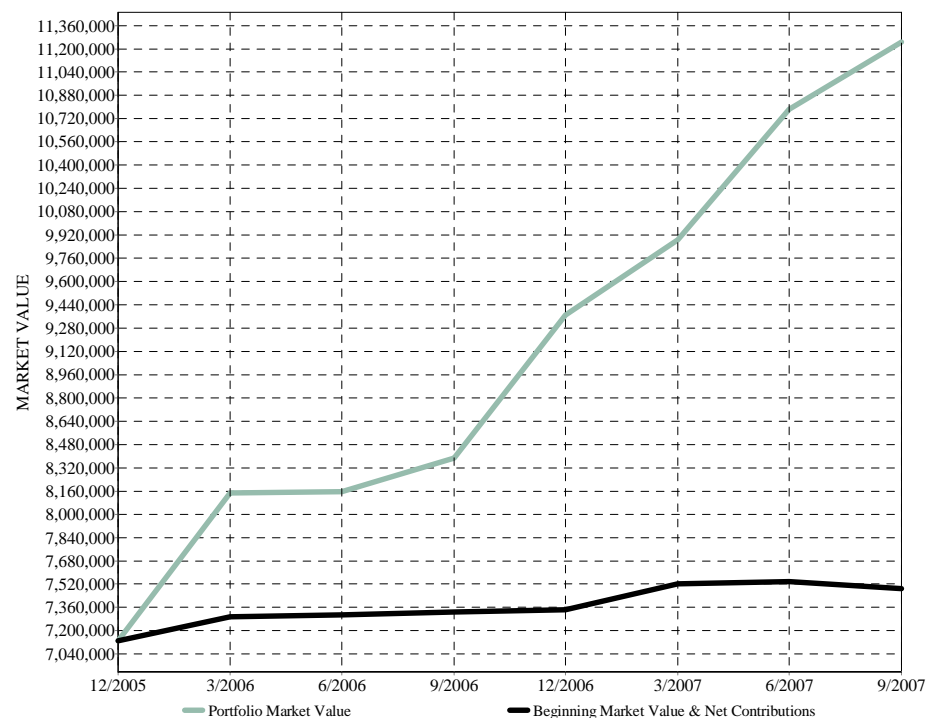
Source	Quarter	Year to Date	12/2005 - 6/2007
Beginning Value	10,783,081	9,370,346	7,130,692
Net Flows	-51,085	142,964	356,076
Investment G/L	513,827	1,732,513	3,759,055
Ending Value	11,245,823	11,245,823	11,245,823

### Asset Allocation

Total Market Value  
As Of September 30, 2007  
\$11,245,823

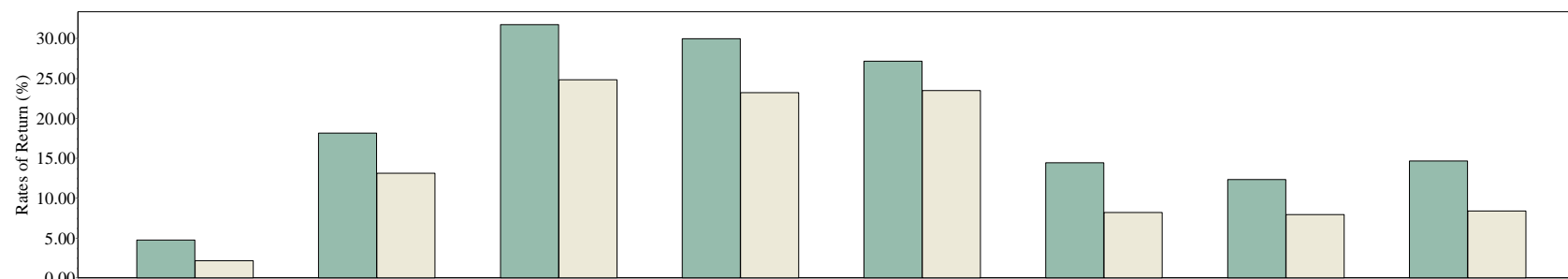


### Source Of Portfolio Growth



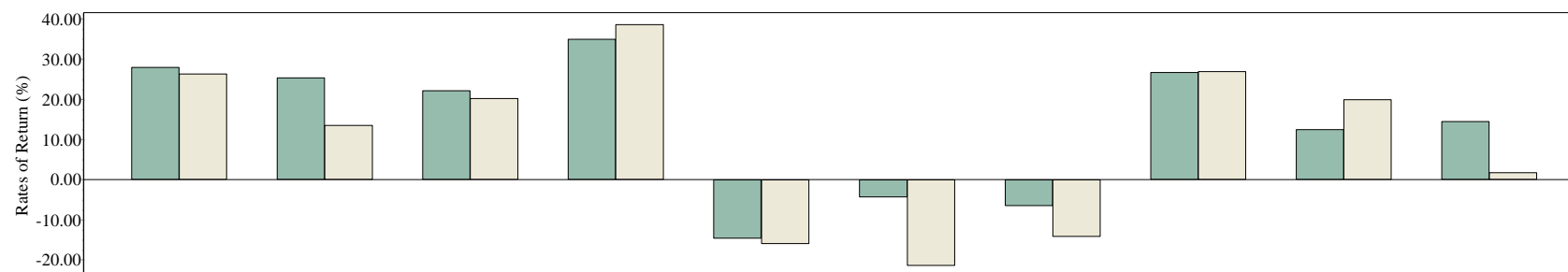
# **PRINCIPAL INTERNATIONAL STOCK - TOTAL FUND** **12/1994 Through 9/2007**

## **Trailing Returns**



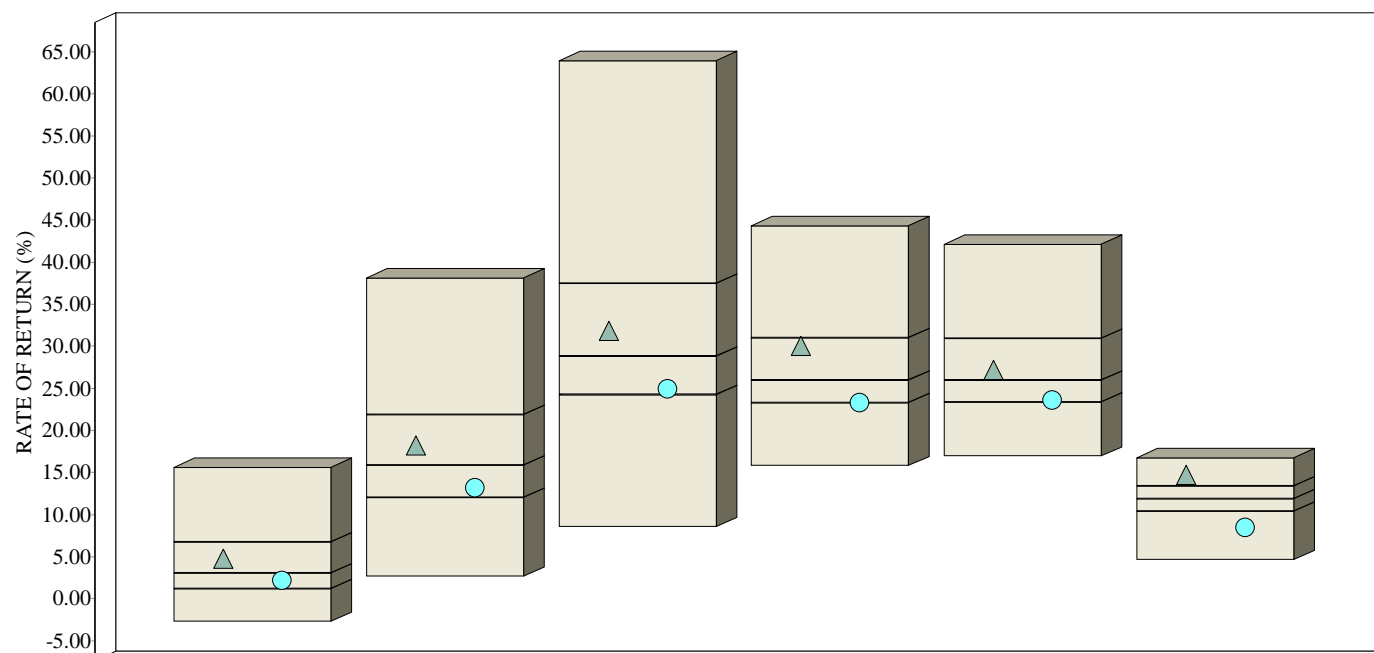
	1 Qtr	YTD	1 Yr	3 Yr	5 Yr	7 Yr	10 Yr	Since Inception
TOTAL FUND	4.77	18.19	31.80	30.03	27.20	14.47	12.37	14.71
MSCI NET EAFE	2.18	13.15	24.86	23.24	23.56	8.22	7.97	8.42
Difference	2.60	5.04	6.94	6.79	3.65	6.25	4.40	6.28

## **Calendar Year Returns**



	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
TOTAL FUND	27.96	25.37	22.19	34.99	-14.65	-4.33	-6.45	26.78	12.46	14.49
MSCI NET EAFE	26.34	13.54	20.24	38.60	-15.94	-21.44	-14.16	26.97	19.99	1.77
Difference	1.62	11.84	1.95	-3.61	1.29	17.10	7.71	-0.20	-7.53	12.72

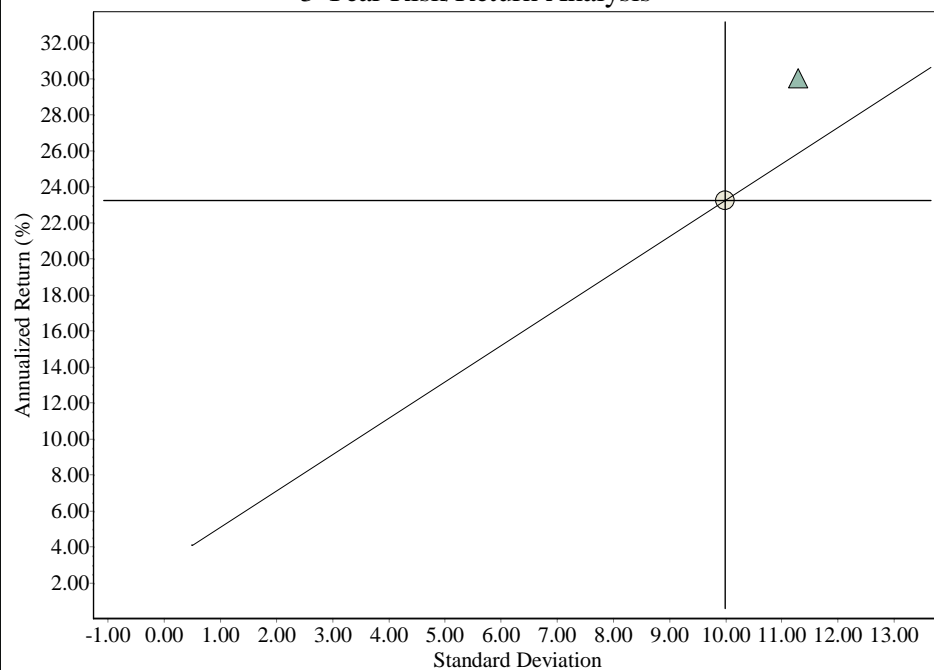
# QUARTILE RANKING ANALYSIS TOTAL FUND AGAINST FOREIGN EQUITY MANAGERS



	LATEST QUARTER		YEAR-TO- DATE		ONE YEAR		THREE YEARS		FIVE YEARS		SINCE INCEPTION	
HIGHEST VALUE	15.62		38.08		63.95		44.27		42.08		16.75	
FIRST QUARTILE	6.71		21.88		37.49		31.05		30.89		13.37	
MEDIAN VALUE	3.03		15.86		28.82		25.94		25.95		11.87	
THIRD QUARTILE	1.17		12.04		24.28		23.29		23.32		10.38	
LOWEST VALUE	-2.75		2.66		8.47		15.78		16.88		4.62	
MEAN	4.29		17.81		32.41		27.79		27.72		11.74	
	LATEST QUARTER		YEAR-TO- DATE		ONE YEAR		THREE YEARS		FIVE YEARS		SINCE INCEPTION	
	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK
▲ PRINCIPAL INTL STOCK	4.77	34	18.19	35	31.80	36	30.03	27	27.20	40	14.71	12
● MSCI NET EAFE	2.18	60	13.15	67	24.86	72	23.24	75	23.56	72	8.42	91

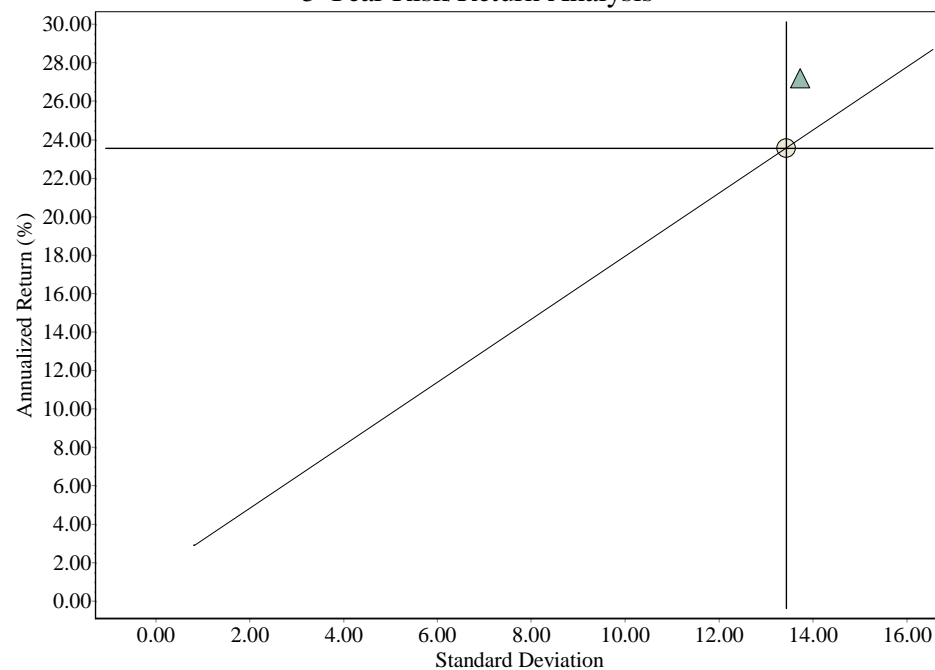
## PRINCIPAL INTERNATIONAL STOCK RETURN VS RISK

3 Year Risk/Return Analysis



	Return	Std Dev	Alpha	Beta	R-Squared
▲ PRINCIPAL INTL STOCK	30.03	11.29	4.39	1.08	90.79
○ MSCI NET EAFE	23.24	10.00	0.00	1.00	100.00

5 Year Risk/Return Analysis



	Return	Std Dev	Alpha	Beta	R-Squared
▲ PRINCIPAL INTL STOCK	27.20	13.72	3.50	0.98	93.10
○ MSCI NET EAFE	23.56	13.43	0.00	1.00	100.00

**PRINCIPAL INTERNATIONAL STOCK  
 TOTAL FUND MARKET VALUES AND CASH FLOWS**

Period Ending	Beginning Value	Net Flows	Investment Gain/Loss	Ending Value	Return (%)
Mar 2002	N/A	0	0	N/A	-0.48
Jun 2002	N/A	0	3,793,548	3,793,548	-1.43
Sep 2002	3,793,548	0	-691,999	3,101,549	-18.28
Dec 2002	3,101,549	0	213,601	3,315,150	6.47
Mar 2003	3,315,150	0	-257,809	3,057,341	-7.88
Jun 2003	3,057,341	0	554,222	3,611,563	17.86
Sep 2003	3,611,563	0	207,171	3,818,734	5.62
Dec 2003	3,818,734	0	685,629	4,504,363	17.72
Mar 2004	4,504,363	0	219,287	4,723,650	4.24
Jun 2004	4,723,650	0	-30,296	4,693,354	-0.77
Sep 2004	4,693,354	0	89,461	4,782,815	1.89
Dec 2004	4,782,815	0	771,942	5,554,757	15.94
Mar 2005	5,554,757	0	180,760	5,735,517	0.90
Jun 2005	5,735,517	16,823	78,107	5,830,447	1.62
Sep 2005	5,830,447	17,120	880,512	6,728,079	15.34
Dec 2005	6,728,079	14,856	387,757	7,130,692	6.01
Mar 2006	7,130,692	164,155	852,303	8,147,150	11.91
Jun 2006	8,147,150	14,729	-6,802	8,155,077	-0.08
Sep 2006	8,155,077	17,204	214,408	8,386,689	2.63
Dec 2006	8,386,689	17,024	966,633	9,370,346	11.51
Mar 2007	9,370,346	178,455	339,805	9,888,606	3.61
Jun 2007	9,888,606	15,594	878,881	10,783,081	8.88
Sep 2007	10,783,081	-51,085	513,827	11,245,823	4.77

**PRINCIPAL INTERNATIONAL STOCK  
 QUARTERLY ASSET ALLOCATION (%)**

**INTERNATIONAL EQUITY**

Period Ending	Actual Weight
12/31/2005	100.00
03/31/2006	100.00
06/30/2006	100.00
09/30/2006	100.00
12/31/2006	100.00
03/31/2007	100.00
06/30/2007	100.00

### Profile

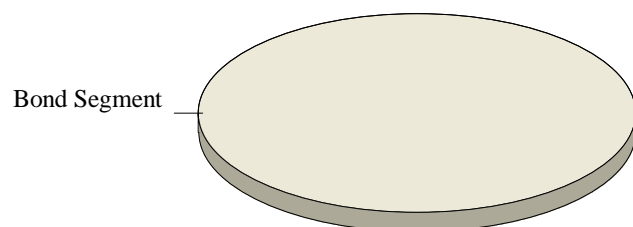
PRINCIPAL BOND AND MORTGAGE	
Style:	Core Fixed Income
Benchmark:	LB AGGREGATE BOND
Universe:	Core Fixed Income
Inception Date:	December 31, 1994

### Account Reconciliation

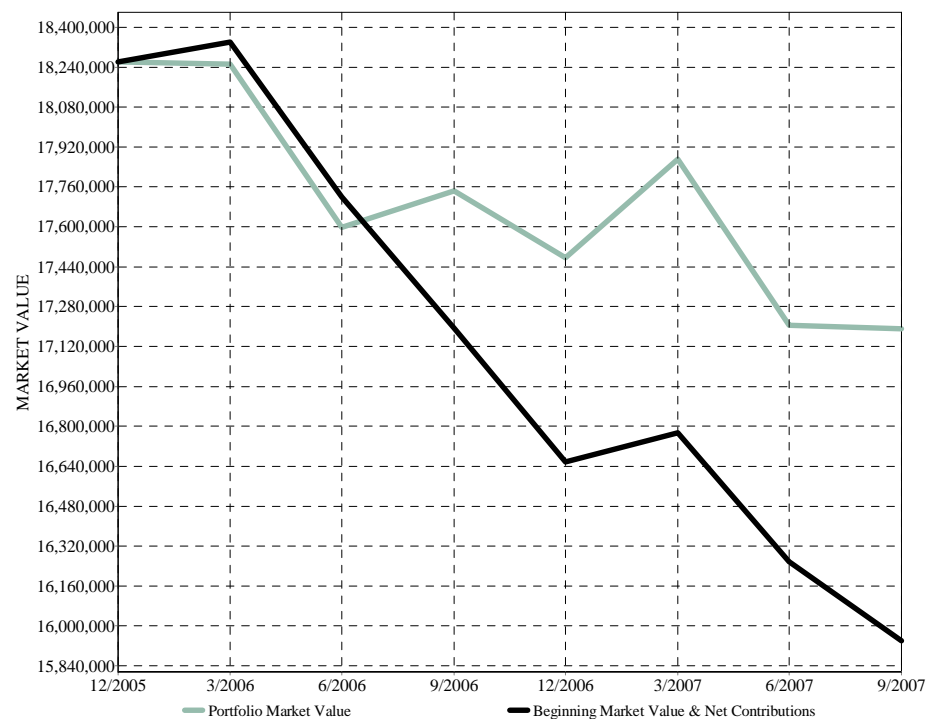
Source	Quarter	Year to Date	12/2005 - 6/2007
Beginning Value	17,203,813	17,475,292	18,259,972
Net Flows	-316,543	-717,021	-2,319,889
Investment G/L	303,709	432,708	1,250,896
Ending Value	17,190,979	17,190,979	17,190,979

### Asset Allocation

Total Market Value  
As Of September 30, 2007  
\$17,190,979



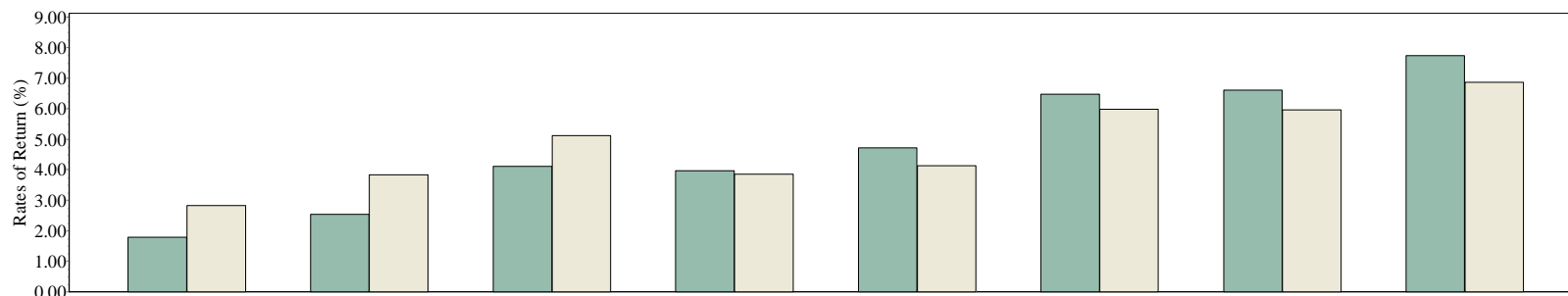
### Source Of Portfolio Growth



## PRINCIPAL BOND AND MORTGAGE - TOTAL FUND

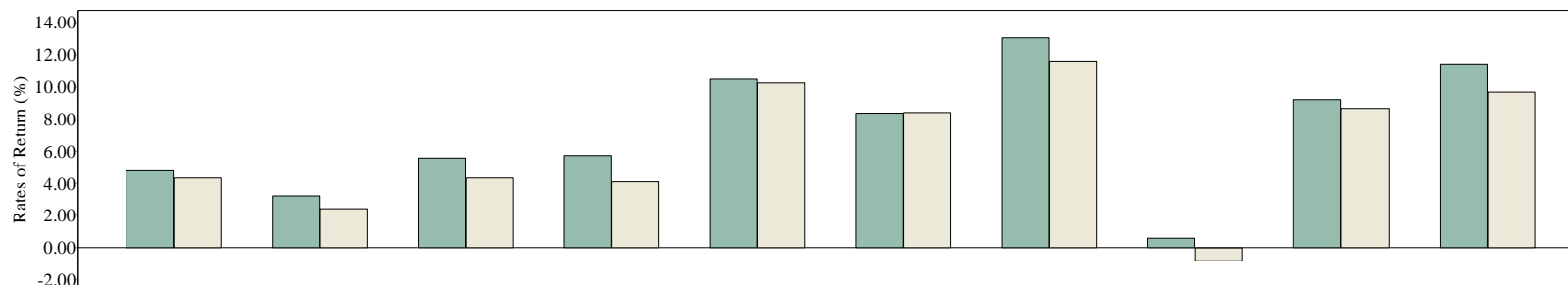
### 12/1994 Through 9/2007

### Trailing Returns



	1 Qtr	YTD	1 Yr	3 Yr	5 Yr	7 Yr	10 Yr	Since Inception
TOTAL FUND	1.79	2.55	4.12	3.98	4.73	6.49	6.62	7.74
LB AGGREGATE BOND	2.85	3.84	5.13	3.86	4.13	5.98	5.97	6.88
Difference	-1.06	-1.30	-1.01	0.12	0.60	0.50	0.65	0.87

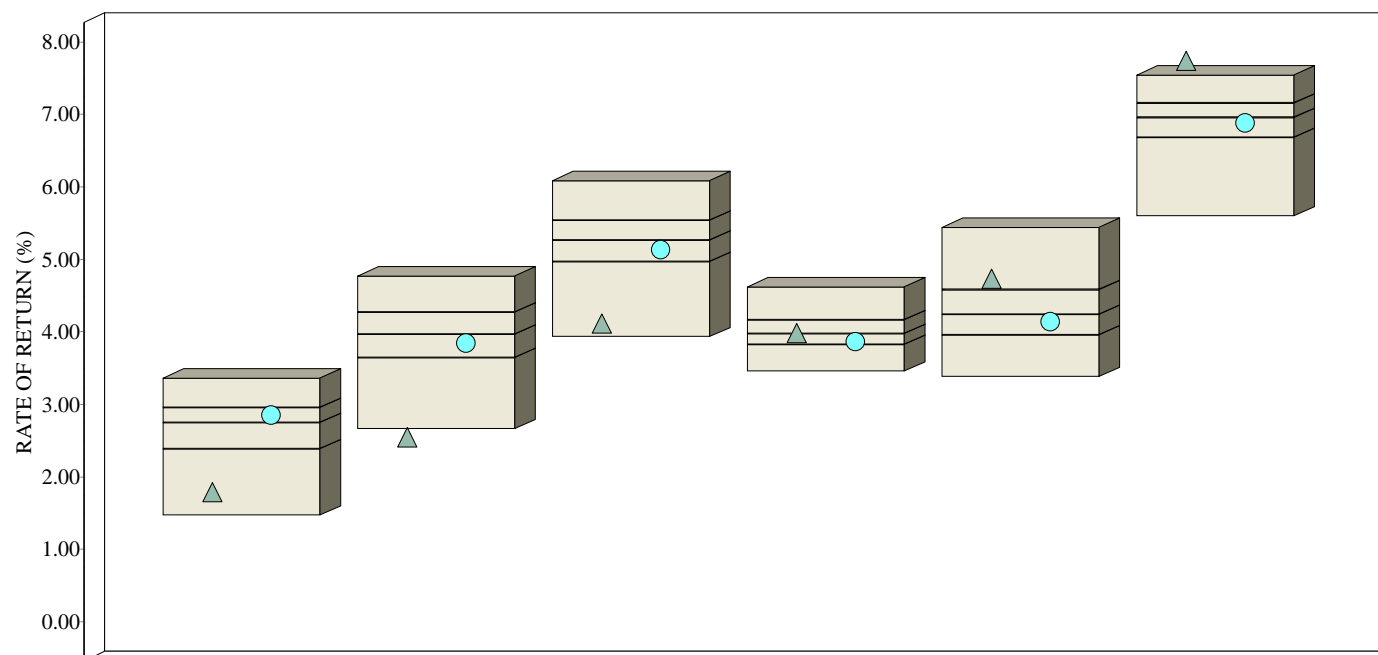
### Calendar Year Returns



	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
TOTAL FUND	4.79	3.24	5.60	5.76	10.50	8.39	13.09	0.60	9.23	11.44
LB AGGREGATE BOND	4.33	2.43	4.34	4.11	10.27	8.42	11.63	-0.83	8.67	9.68
Difference	0.46	0.81	1.26	1.65	0.23	-0.04	1.46	1.43	0.55	1.76



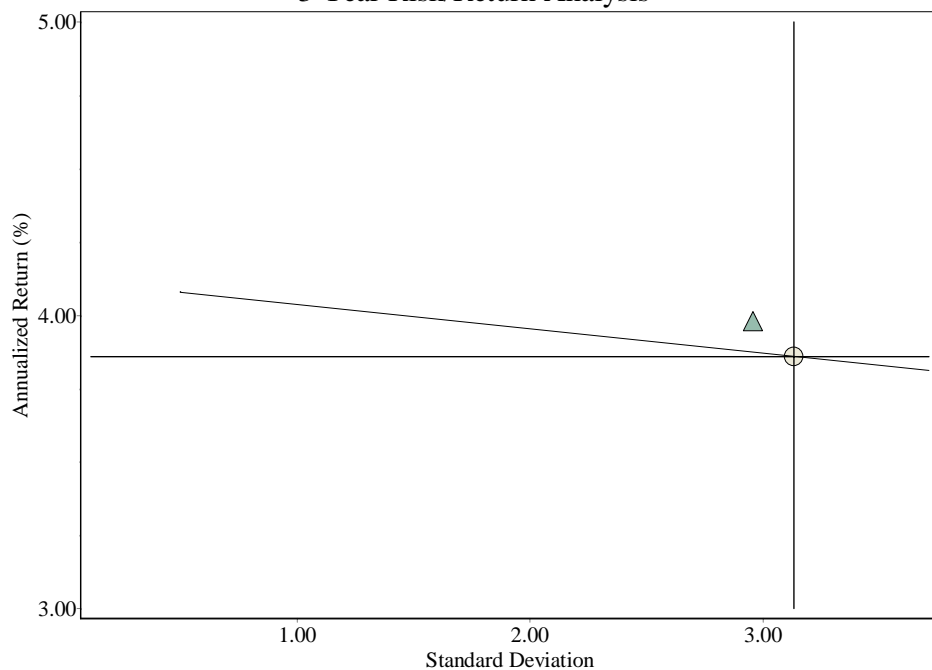
# QUARTILE RANKING ANALYSIS TOTAL FUND AGAINST CORE FIXED INCOME



	LATEST QUARTER		YEAR-TO-DATE		ONE YEAR		THREE YEARS		FIVE YEARS		SINCE INCEPTION	
HIGHEST VALUE		3.36		4.77		6.08		4.62		5.44		7.55
FIRST QUARTILE		2.95		4.27		5.54		4.16		4.58		7.15
MEDIAN VALUE		2.74		3.96		5.26		3.97		4.24		6.95
THIRD QUARTILE		2.39		3.64		4.97		3.82		3.96		6.68
LOWEST VALUE		1.47		2.66		3.93		3.45		3.38		5.59
MEAN		2.64		3.92		5.23		3.99		4.28		6.87
	LATEST QUARTER		YEAR-TO-DATE		ONE YEAR		THREE YEARS		FIVE YEARS		SINCE INCEPTION	
	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK
▲ PRINCIPAL BOND MTG	1.79	94	2.55	99	4.12	98	3.98	49	4.73	17	7.74	1
● LB AGGREGATE BOND	2.85	40	3.84	60	5.13	61	3.86	70	4.13	62	6.88	60

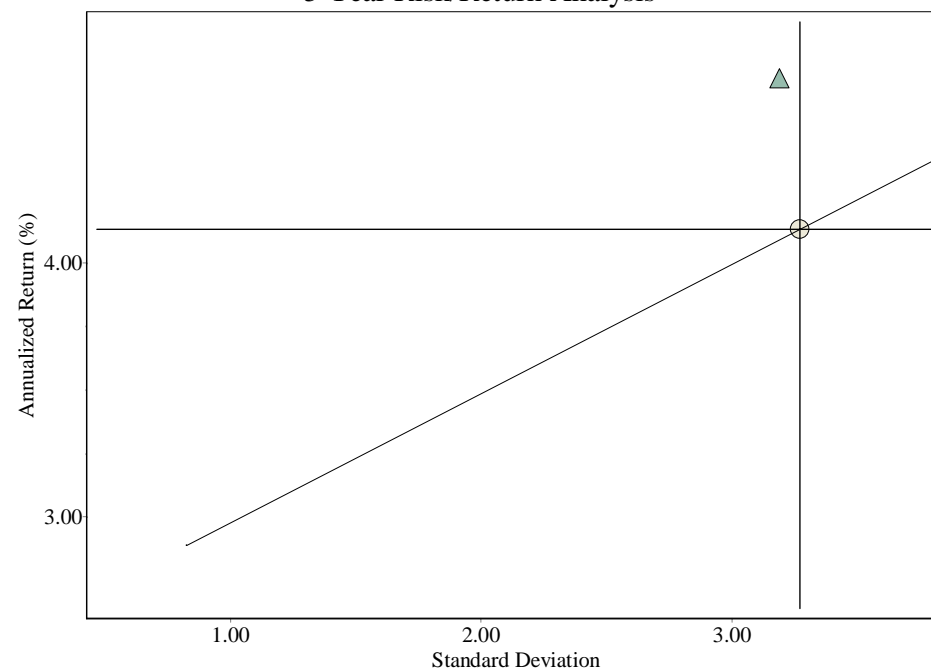
## PRINCIPAL BOND AND MORTGAGE RETURN VS RISK

3 Year Risk/Return Analysis



	Return	Std Dev	Alpha	Beta	R-Squared
▲ PRINCIPAL BOND MTG	3.98	2.96	0.10	0.92	93.15
● LB AGGREGATE BOND	3.86	3.13	0.00	1.00	100.00

5 Year Risk/Return Analysis



	Return	Std Dev	Alpha	Beta	R-Squared
▲ PRINCIPAL BOND MTG	4.73	3.19	0.60	0.98	95.56
● LB AGGREGATE BOND	4.13	3.27	0.00	1.00	100.00

**PRINCIPAL BOND AND MORTGAGE  
TOTAL FUND MARKET VALUES AND CASH FLOWS**

Period Ending	Beginning Value	Net Flows	Investment Gain/Loss	Ending Value	Return (%)
Mar 2002	N/A	0	0	N/A	0.17
Jun 2002	N/A	0	17,507,309	17,507,309	3.76
Sep 2002	17,507,309	0	245,608	17,752,917	4.57
Dec 2002	17,752,917	0	-45,649	17,707,268	1.67
Mar 2003	17,707,268	0	-121,848	17,585,420	1.72
Jun 2003	17,585,420	0	130,200	17,715,620	2.92
Sep 2003	17,715,620	0	-384,598	17,331,022	0.06
Dec 2003	17,331,022	0	-217,931	17,113,091	0.96
Mar 2004	17,113,091	0	1,421,510	18,534,601	2.95
Jun 2004	18,534,601	0	-776,403	17,758,198	-2.12
Sep 2004	17,758,198	0	117,376	17,875,574	3.42
Dec 2004	17,875,574	0	1,188,448	19,064,022	1.33
Mar 2005	19,064,022	0	-36,191	19,027,831	-0.36
Jun 2005	19,027,831	-427,848	531,134	19,131,117	2.96
Sep 2005	19,131,117	-438,404	-63,397	18,629,316	-0.16
Dec 2005	18,629,316	-487,332	117,988	18,259,972	0.80
Mar 2006	18,259,972	80,714	-87,760	18,252,926	-0.48
Jun 2006	18,252,926	-620,233	-34,482	17,598,211	-0.19
Sep 2006	17,598,211	-527,584	673,556	17,744,183	3.91
Dec 2006	17,744,183	-535,765	266,874	17,475,292	1.53
Mar 2007	17,475,292	117,510	279,992	17,872,794	1.62
Jun 2007	17,872,794	-517,988	-150,993	17,203,813	-0.86
Sep 2007	17,203,813	-316,543	303,709	17,190,979	1.79

**PRINCIPAL BOND AND MORTGAGE  
QUARTERLY ASSET ALLOCATION (%)**

**BOND**

Period Ending	Actual Weight
12/31/2005	100.00
03/31/2006	100.00
06/30/2006	100.00
09/30/2006	100.00
12/31/2006	100.00
03/31/2007	100.00
06/30/2007	100.00
09/30/2007	100.00

**COMPOSITE  
RISK MEASURES - TOTAL FUND**

3 Yr	Fund	Policy	Diff
Negative Periods	2.00	2.00	0.00
Positive Periods	10.00	10.00	0.00
Batting Average	58.33	41.67	16.67
Worst Qtr	-1.31	-1.25	-0.06
Best Qtr	6.74	7.18	-0.44
Range	8.05	8.43	-0.38
Worst 4 Qtrs	6.43	5.40	1.04
Standard Deviation	4.70	4.59	0.11
Beta	1.01	1.00	0.01
Alpha	0.48	0.00	0.48
R-Squared	97.96	100.00	-2.04
Sharpe Ratio	1.67	1.58	0.09
Treynor Ratio	7.78	7.26	0.52
Tracking Error	0.67	0.00	0.67
Information Ratio	0.81		

5 Yr	Fund	Policy	Diff
Negative Periods	4.00	3.00	1.00
Positive Periods	16.00	17.00	-1.00
Batting Average	50.00	50.00	0.00
Worst Qtr	-1.93	-2.34	0.41
Best Qtr	10.03	11.35	-1.32
Range	11.96	13.70	-1.74
Worst 4 Qtrs	5.57	5.40	0.17
Standard Deviation	6.14	6.63	-0.49
Beta	0.91	1.00	-0.09
Alpha	0.54	0.00	0.54
R-Squared	97.96	100.00	-2.04
Sharpe Ratio	1.54	1.48	0.07
Treynor Ratio	10.42	9.79	0.63
Tracking Error	1.08	0.00	1.08
Information Ratio	-0.30		

7 Yr	Fund	Policy	Diff
Negative Periods		8.00	
Positive Periods		20.00	
Batting Average			
Worst Qtr		-10.32	
Best Qtr		11.35	
Range		21.68	
Worst 4 Qtrs		-14.50	
Standard Deviation		9.82	
Beta		1.00	
Alpha		0.00	
R-Squared		100.00	
Sharpe Ratio		0.20	
Treynor Ratio		1.98	
Tracking Error		0.00	
Information Ratio			

Incept	Fund	Policy	Diff
Negative Periods	6.00	5.00	1.00
Positive Periods	17.00	18.00	-1.00
Batting Average	52.17	47.83	4.35
Worst Qtr	-7.84	-10.32	2.48
Best Qtr	10.03	11.35	-1.32
Range	17.87	21.68	-3.81
Worst 4 Qtrs	-8.08	-12.76	4.67
Standard Deviation	7.67	8.95	-1.28
Beta	0.85	1.00	-0.15
Alpha	1.38	0.00	1.38
R-Squared	98.04	100.00	-1.96
Sharpe Ratio	0.75	0.56	0.19
Treynor Ratio	6.80	5.03	1.77
Tracking Error	1.74	0.00	1.74
Information Ratio	0.32		

Past performance is not a guarantee of future results.

**PRINCIPAL LARGE CAP STOCK INDEX  
RISK MEASURES - TOTAL FUND**

3 Yr	Fund	Policy	Diff
Negative Periods	2.00	2.00	0.00
Positive Periods	10.00	10.00	0.00
Batting Average	16.67	83.33	-66.67
Worst Qtr	-2.12	-2.15	0.03
Best Qtr	9.21	9.23	-0.02
Range	11.33	11.39	-0.06
Worst 4 Qtrs	4.92	4.90	0.02
Standard Deviation	6.50	6.54	-0.04
Beta	0.99	1.00	-0.01
Alpha	-0.13	0.00	-0.13
R-Squared	99.99	100.00	-0.01
Sharpe Ratio	1.37	1.39	-0.02
Treynor Ratio	8.91	9.05	-0.14
Tracking Error	0.08	0.00	0.08
Information Ratio	-2.09		

5 Yr	Fund	Policy	Diff
Negative Periods	4.00	4.00	0.00
Positive Periods	16.00	16.00	0.00
Batting Average	20.00	80.00	-60.00
Worst Qtr	-3.16	-3.15	-0.01
Best Qtr	15.36	15.40	-0.04
Range	18.52	18.55	-0.03
Worst 4 Qtrs	4.92	4.90	0.02
Standard Deviation	9.45	9.48	-0.03
Beta	1.00	1.00	0.00
Alpha	-0.10	0.00	-0.10
R-Squared	99.99	100.00	-0.01
Sharpe Ratio	1.31	1.32	-0.01
Treynor Ratio	12.45	12.56	-0.11
Tracking Error	0.07	0.00	0.07
Information Ratio	-1.84		

7 Yr	Fund	Policy	Diff
Negative Periods	9.00	9.00	0.00
Positive Periods	19.00	19.00	0.00
Batting Average	32.14	67.86	-35.71
Worst Qtr	-17.27	-17.28	0.01
Best Qtr	15.36	15.40	-0.04
Range	32.63	32.68	-0.05
Worst 4 Qtrs	-26.58	-26.62	0.04
Standard Deviation	15.76	15.81	-0.05
Beta	1.00	1.00	0.00
Alpha	-0.08	0.00	-0.08
R-Squared	100.00	100.00	0.00
Sharpe Ratio	-0.03	-0.02	-0.01
Treynor Ratio	-0.40	-0.32	-0.08
Tracking Error	0.11	0.00	0.11
Information Ratio	-0.82		

Incept	Fund	Policy	Diff
Negative Periods	13.00	13.00	0.00
Positive Periods	38.00	38.00	0.00
Batting Average	62.75	37.25	25.49
Worst Qtr	-17.27	-17.28	0.01
Best Qtr	21.37	21.30	0.07
Range	38.64	38.57	0.07
Worst 4 Qtrs	-26.58	-26.62	0.04
Standard Deviation	15.76	15.77	0.00
Beta	1.00	1.00	0.00
Alpha	0.09	0.00	0.09
R-Squared	99.99	100.00	-0.01
Sharpe Ratio	0.50	0.50	0.01
Treynor Ratio	7.94	7.84	0.10
Tracking Error	0.13	0.00	0.13
Information Ratio	0.67		

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**PRINCIPAL INTERNATIONAL STOCK  
RISK MEASURES - TOTAL FUND**

3 Yr	Fund	Policy	Diff
Negative Periods	1.00	2.00	-1.00
Positive Periods	11.00	10.00	1.00
Batting Average	75.00	25.00	50.00
Worst Qtr	-0.08	-1.01	0.92
Best Qtr	15.94	15.32	0.62
Range	16.02	16.33	-0.30
Worst 4 Qtrs	18.47	13.54	4.94
Standard Deviation	10.81	9.57	1.24
Beta	1.08	1.00	0.08
Alpha	4.39	0.00	4.39
R-Squared	90.79	100.00	-9.21
Sharpe Ratio	2.40	2.00	0.40
Treynor Ratio	24.06	19.16	4.90
Tracking Error	3.40	0.00	3.40
Information Ratio	1.73		

5 Yr	Fund	Policy	Diff
Negative Periods	3.00	4.00	-1.00
Positive Periods	17.00	16.00	1.00
Batting Average	65.00	35.00	30.00
Worst Qtr	-7.88	-8.20	0.32
Best Qtr	17.86	19.27	-1.41
Range	25.74	27.47	-1.73
Worst 4 Qtrs	18.28	13.54	4.74
Standard Deviation	13.37	13.09	0.28
Beta	0.98	1.00	-0.02
Alpha	3.50	0.00	3.50
R-Squared	93.10	100.00	-6.90
Sharpe Ratio	1.82	1.58	0.24
Treynor Ratio	24.80	20.67	4.13
Tracking Error	3.53	0.00	3.53
Information Ratio	0.87		

7 Yr	Fund	Policy	Diff
Negative Periods	8.00	10.00	-2.00
Positive Periods	20.00	18.00	2.00
Batting Average	67.86	32.14	35.71
Worst Qtr	-18.28	-19.73	1.45
Best Qtr	17.86	19.27	-1.41
Range	36.14	39.01	-2.87
Worst 4 Qtrs	-21.00	-28.54	7.54
Standard Deviation	16.81	17.59	-0.78
Beta	0.87	1.00	-0.13
Alpha	6.46	0.00	6.46
R-Squared	84.46	100.00	-15.54
Sharpe Ratio	0.69	0.30	0.39
Treynor Ratio	13.23	5.30	7.93
Tracking Error	6.99	0.00	6.99
Information Ratio	0.79		

Incept	Fund	Policy	Diff
Negative Periods	14.00	18.00	-4.00
Positive Periods	37.00	33.00	4.00
Batting Average	64.71	35.29	29.41
Worst Qtr	-18.28	-19.73	1.45
Best Qtr	17.86	20.65	-2.79
Range	36.14	40.38	-4.24
Worst 4 Qtrs	-21.00	-28.54	7.54
Standard Deviation	16.24	16.71	-0.48
Beta	0.88	1.00	-0.12
Alpha	6.38	0.00	6.38
R-Squared	83.50	100.00	-16.50
Sharpe Ratio	0.66	0.27	0.39
Treynor Ratio	12.16	4.47	7.69
Tracking Error	6.89	0.00	6.89
Information Ratio	0.82		

Past performance is not a guarantee of future results.

**PRINCIPAL BOND AND MORTGAGE  
RISK MEASURES - TOTAL FUND**

3 Yr	Fund	Policy	Diff
Negative Periods	5.00	5.00	0.00
Positive Periods	7.00	7.00	0.00
Batting Average	66.67	33.33	33.33
Worst Qtr	-0.86	-0.68	-0.19
Best Qtr	3.91	3.81	0.10
Range	4.77	4.48	0.29
Worst 4 Qtrs	-0.04	-0.81	0.77
Standard Deviation	2.83	3.00	-0.17
Beta	0.92	1.00	-0.08
Alpha	0.10	0.00	0.10
R-Squared	93.15	100.00	-6.85
Sharpe Ratio	-0.03	-0.07	0.04
Treynor Ratio	-0.11	-0.22	0.11
Tracking Error	0.78	0.00	0.78
Information Ratio	0.14		

5 Yr	Fund	Policy	Diff
Negative Periods	6.00	7.00	-1.00
Positive Periods	14.00	13.00	1.00
Batting Average	80.00	20.00	60.00
Worst Qtr	-2.12	-2.44	0.32
Best Qtr	3.91	3.81	0.10
Range	6.03	6.24	-0.22
Worst 4 Qtrs	-0.04	-0.81	0.77
Standard Deviation	3.11	3.19	-0.08
Beta	0.98	1.00	-0.02
Alpha	0.60	0.00	0.60
R-Squared	95.56	100.00	-4.44
Sharpe Ratio	0.59	0.39	0.20
Treynor Ratio	1.88	1.25	0.64
Tracking Error	0.70	0.00	0.70
Information Ratio	0.82		

7 Yr	Fund	Policy	Diff
Negative Periods	7.00	7.00	0.00
Positive Periods	21.00	21.00	0.00
Batting Average	75.00	25.00	50.00
Worst Qtr	-2.12	-2.44	0.32
Best Qtr	4.74	4.62	0.12
Range	6.86	7.05	-0.19
Worst 4 Qtrs	-0.04	-0.81	0.77
Standard Deviation	3.60	3.67	-0.06
Beta	0.98	1.00	-0.02
Alpha	0.54	0.00	0.54
R-Squared	96.94	100.00	-3.06
Sharpe Ratio	0.99	0.84	0.15
Treynor Ratio	3.64	3.06	0.58
Tracking Error	0.64	0.00	0.64
Information Ratio	0.74		

Incept	Fund	Policy	Diff
Negative Periods	9.00	12.00	-3.00
Positive Periods	42.00	39.00	3.00
Batting Average	80.39	19.61	60.78
Worst Qtr	-2.12	-2.44	0.32
Best Qtr	6.51	6.09	0.42
Range	8.63	8.53	0.10
Worst 4 Qtrs	-0.04	-0.83	0.79
Standard Deviation	3.80	3.83	-0.03
Beta	0.98	1.00	-0.02
Alpha	0.89	0.00	0.89
R-Squared	97.24	100.00	-2.76
Sharpe Ratio	1.00	0.76	0.23
Treynor Ratio	3.88	2.92	0.96
Tracking Error	0.63	0.00	0.63
Information Ratio	1.31		

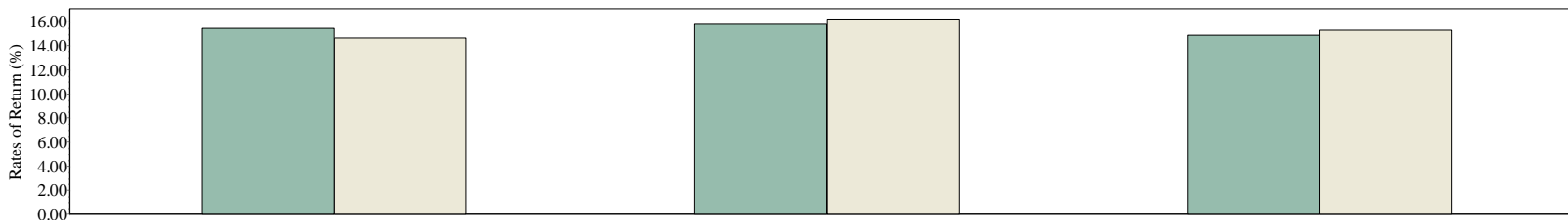
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## COMPOSITE

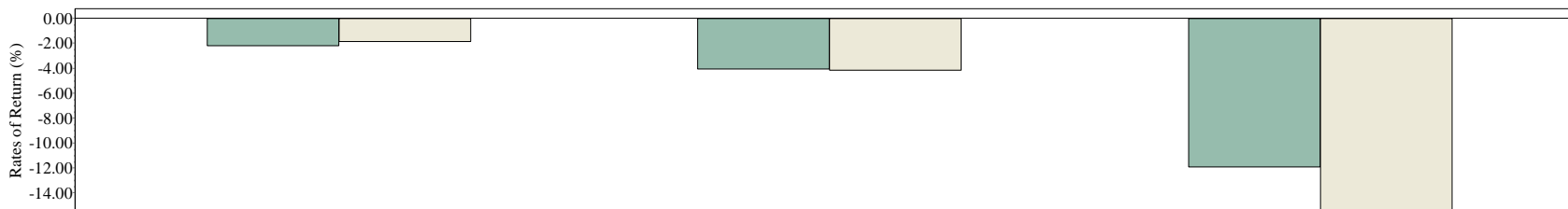
### TOTAL FUND PERFORMANCE IN RISING AND DECLINING MARKETS

#### Performance in Rising Markets



	3 Yr	5 Yr	Inception
TOTAL FUND	15.49	15.82	14.95
POLICY INDEX	14.62	16.23	15.34
Difference	0.87	-0.41	-0.39
Ratio	1.06	0.97	0.97
Up Periods	10	17	18

#### Performance in Declining Markets



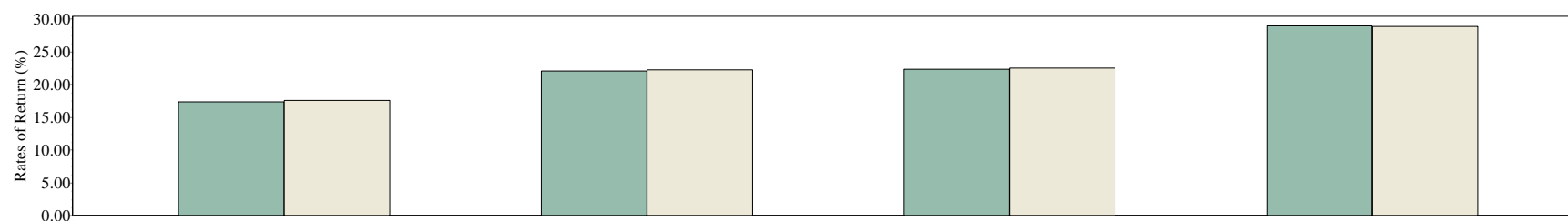
	3 Yr	5 Yr	Inception
TOTAL FUND	-2.18	-4.07	-11.93
POLICY INDEX	-1.86	-4.16	-15.63
Difference	-0.32	0.09	3.69
Ratio	1.17	0.98	0.76
Down Periods	2	3	5

The comparative index for this analysis is the POLICY INDEX.

## PRINCIPAL LARGE CAP STOCK INDEX

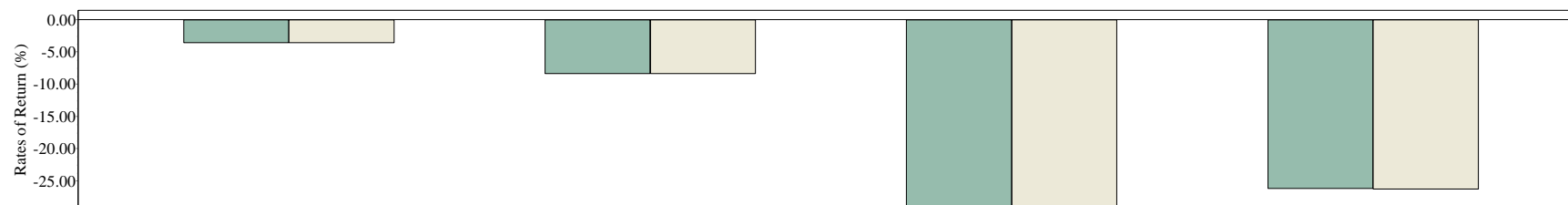
### TOTAL FUND PERFORMANCE IN RISING AND DECLINING MARKETS

#### Performance in Rising Markets



	3 Yr	5 Yr	7 Yr	Inception
TOTAL FUND	17.44	22.12	22.39	29.01
S&P 500	17.66	22.31	22.57	28.94
Difference	-0.22	-0.19	-0.18	0.07
Ratio	0.99	0.99	0.99	1.00
Up Periods	10	16	19	38

#### Performance in Declining Markets

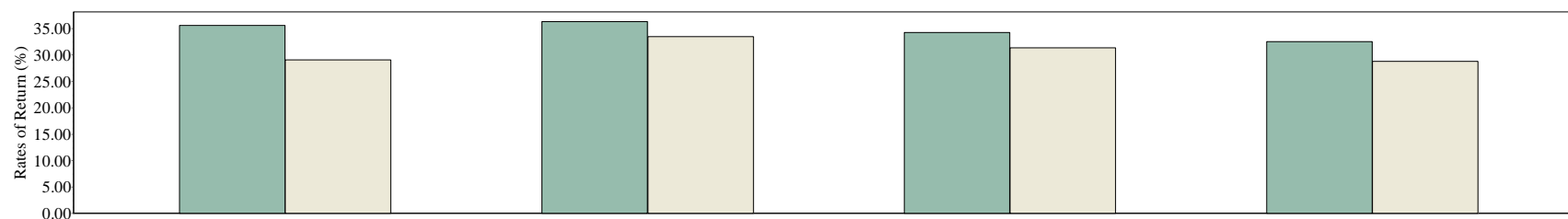


	3 Yr	5 Yr	7 Yr	Inception
TOTAL FUND	-3.59	-8.38	-29.47	-26.21
S&P 500	-3.56	-8.35	-29.52	-26.33
Difference	-0.03	-0.03	0.05	0.12
Ratio	1.01	1.00	1.00	1.00
Down Periods	2	4	9	13

The comparative index for this analysis is the S&P 500.

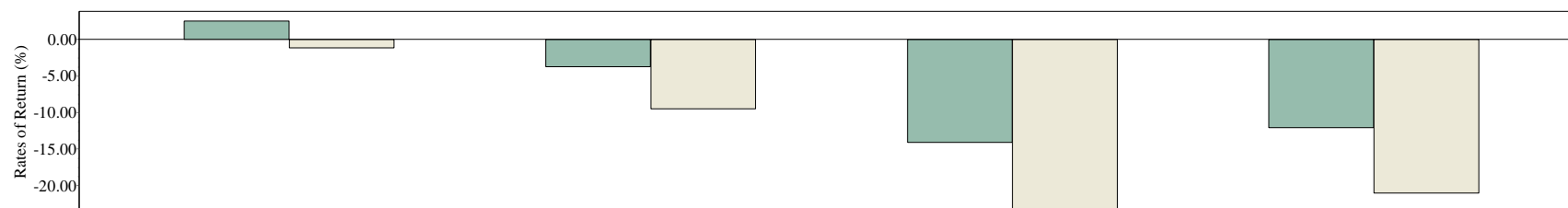
## PRINCIPAL INTERNATIONAL STOCK TOTAL FUND PERFORMANCE IN RISING AND DECLINING MARKETS

### Performance in Rising Markets



	3 Yr	5 Yr	7 Yr	Inception
TOTAL FUND	35.67	36.39	34.30	32.62
MSCI NET EAFE	29.10	33.57	31.44	28.88
Difference	6.57	2.82	2.85	3.74
Ratio	1.23	1.08	1.09	1.13
Up Periods	10	16	18	33

### Performance in Declining Markets

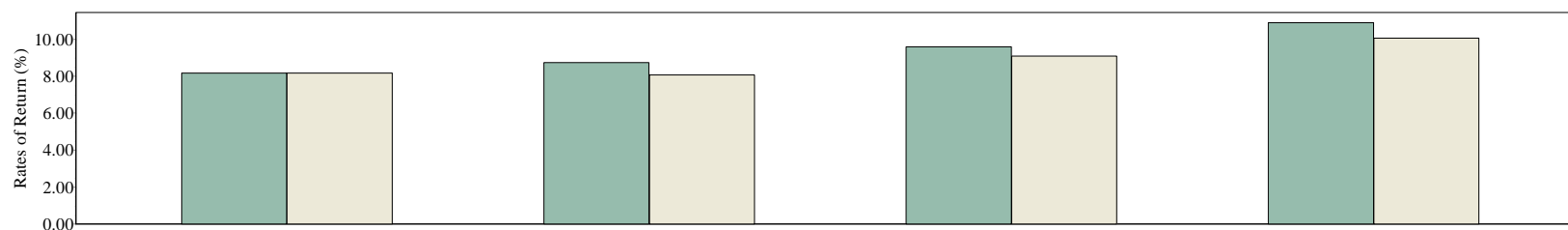


	3 Yr	5 Yr	7 Yr	Inception
TOTAL FUND	2.53	-3.76	-14.14	-12.08
MSCI NET EAFE	-1.17	-9.53	-23.74	-21.02
Difference	3.71	5.77	9.60	8.94
Ratio	-2.16	0.39	0.60	0.57
Down Periods	2	4	10	18

The comparative index for this analysis is the MSCI NET EAFE.

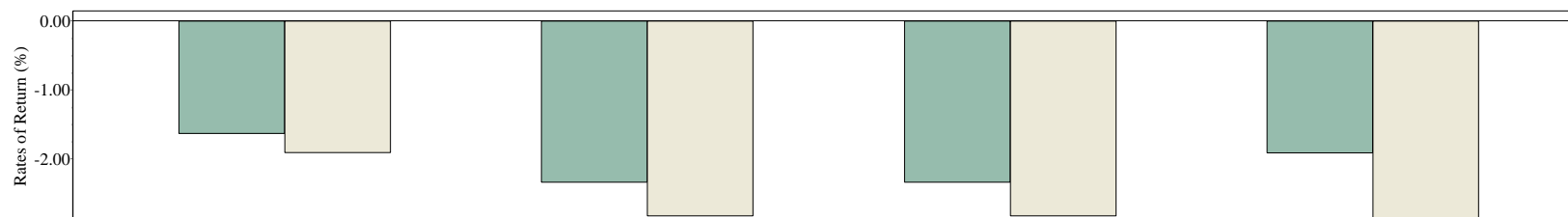
## PRINCIPAL BOND AND MORTGAGE TOTAL FUND PERFORMANCE IN RISING AND DECLINING MARKETS

### Performance in Rising Markets



	3 Yr	5 Yr	7 Yr	Inception
TOTAL FUND	8.19	8.74	9.60	10.90
LB AGGREGATE BOND	8.19	8.08	9.09	10.08
Difference	0.00	0.66	0.51	0.82
Ratio	1.00	1.08	1.06	1.08
Up Periods	7	13	21	39

### Performance in Declining Markets



	3 Yr	5 Yr	7 Yr	Inception
TOTAL FUND	-1.64	-2.34	-2.34	-1.92
LB AGGREGATE BOND	-1.91	-2.83	-2.83	-2.92
Difference	0.27	0.49	0.49	1.00
Ratio	0.86	0.83	0.83	0.66
Down Periods	5	7	7	12

The comparative index for this analysis is the LB AGGREGATE BOND.

**COMPOSITE  
TOTAL FUND TIME WEIGHTED RATES OF RETURN**

DATE	ACCOUNT						POLICY INDEX			
	QUARTERLY	SEMI	ANNUALLY	ANNUALLY	SINCE		QUARTERLY	SEMI	ANNUALLY	SINCE
					12/2001					12/2001
03/2002	0.28				0.28		0.32			0.32
06/2002	-3.50	*	-3.23	*	-3.23	*	-5.91	-5.61		-5.61
09/2002	-7.84	*			-10.82	*	-10.32			-15.36
12/2002	5.39		-2.87	*	-6.01	*	5.88	-5.05	-10.38	-10.38
03/2003	-1.93	*			-6.31	*	-2.34			-10.11
06/2003	10.03		7.91		0.95	*	11.35	8.74		-1.70
09/2003	1.36				1.59	*	2.51			-0.06
12/2003	7.79		9.26		5.27	*	8.65	11.38	21.12	4.19
03/2004	2.56	*			5.85	*	2.43			4.83
06/2004	-0.23		2.32		5.15	*	0.03	2.46		4.34
09/2004	0.45	*			4.84	*	0.14			3.99
12/2004	6.74		7.22		6.73	*	7.18	7.33	9.97	6.08
03/2005	-1.31				5.76	*	-1.25			5.19
06/2005	1.99	*	0.65	*	5.94	*	1.60	0.33		5.29
09/2005	3.53	*			6.51	*	3.11			5.79
12/2005	2.14	*	5.74	*	6.65	*	1.88	5.05	5.40	5.91
03/2006	3.59	*			7.14	*	3.26			6.35
06/2006	-0.88		2.67	*	6.52	*	-0.62	2.62		5.84
09/2006	4.64				7.18	*	4.76			6.56
12/2006	5.79	*	10.69	*	8.02	*	5.30	10.31	13.20	7.33
03/2007	1.36				7.90	*	1.47			7.27
06/2007	4.65	*	6.07	*	8.42	*	3.90	5.43		7.67
09/2007	2.38	*			8.48	*	2.37			7.76

THE ASTERISKS INDICATE THOSE PERIODS DURING WHICH THE TOTAL FUND OUTPERFORMED THE POLICY INDEX.

**COMPOSITE  
TOTAL FUND TIME WEIGHTED RATES OF RETURN**

THE POLICY INDEX REFLECTS THE RETURNS OF THE MANAGER'S ASSET  
ALLOCATION IF INVESTED IN THE MARKETS REPRESENTED BY THE FOLLOWING INDEXES:

01/31/1995 - PRESENT

50%	S&P 500
35%	LB AGGREGATE BOND
15%	MSCI NET EAFE

*THE ASTERISKS INDICATE THOSE PERIODS DURING WHICH THE TOTAL FUND OUTPERFORMED THE POLICY INDEX.*

**PRINCIPAL LARGE CAP STOCK INDEX  
 TOTAL FUND TIME WEIGHTED RATES OF RETURN**

DATE	ACCOUNT						S&P 500			
	QUARTERLY	SEMI	ANNUALLY	ANNUALLY		SINCE	QUARTERLY	SEMI	ANNUALLY	SINCE
						12/1994				12/1994
03/1995	9.80	*				9.80	9.74			9.74
06/1995	9.62	*	20.36	*		20.36	9.55	20.21		20.21
09/1995	8.01	*				30.00	7.95			29.77
12/1995	6.11	*	14.61	*	37.95	37.95	6.02	14.45	37.58	37.58
03/1996	5.40	*				34.91	5.37			34.59
06/1996	4.58	*	10.23	*		32.23	4.49	10.10		31.89
09/1996	3.17	*				29.34	3.09			29.00
12/1996	8.42	*	11.86	*	23.30	30.42	8.34	11.68	22.96	30.06
03/1997	2.77	*				28.17	2.68			27.81
06/1997	17.49	*	20.74	*		33.36	17.46	20.61		33.01
09/1997	7.58	*				33.41	7.49			33.05
12/1997	2.96	*	10.76	*	33.74	31.52	2.87	10.58	33.36	31.15
03/1998	14.01	*				34.07	13.95			33.71
06/1998	3.37	*	17.85	*		32.54	3.31	17.72		32.19
09/1998	-9.83	*				26.54	-9.95			26.18
12/1998	21.37	*	9.44	*	28.98	30.88	21.30	9.23	28.58	30.51
03/1999	5.04	*				30.32	4.98			29.96
06/1999	7.12	*	12.52	*		30.39	7.05	12.38		30.03
09/1999	-6.15	*				26.88	-6.25			26.52
12/1999	14.97	*	7.90	*	21.41	28.93	14.88	7.70	21.04	28.56
03/2000	2.34	*				27.94	2.29			27.58
06/2000	-2.58	*	-0.30	*		25.91	-2.66	-0.42		25.56
09/2000	-0.92	*				24.46	-0.97			24.11
12/2000	-7.71	*	-8.56	*	-8.83	21.69	-7.83	-8.72	-9.11	21.34
03/2001	-11.90					18.31	-11.86			18.00
06/2001	5.73		-6.85			18.56	5.86	-6.69		18.28
09/2001	-14.59	*				15.10	-14.68			14.81

THE ASTERISKS INDICATE THOSE PERIODS DURING WHICH THE TOTAL FUND OUTPERFORMED THE S&P 500.

**PRINCIPAL LARGE CAP STOCK INDEX  
TOTAL FUND TIME WEIGHTED RATES OF RETURN**

DATE	ACCOUNT						S&P 500				
	QUARTERLY	SEMI	ANNUALLY	ANNUALLY		SINCE	QUARTERLY	SEMI	ANNUALLY	SINCE	
						12/1994				12/1994	
12/2001	10.74	*	-5.42	*	-11.90	16.20	*	10.69	-5.56	-11.88	15.92
03/2002	0.25					15.64	*	0.27			15.37
06/2002	-13.39	*	-13.17			12.90	*	-13.40	-13.16		12.64
09/2002	-17.27	*				9.74	*	-17.28			9.50
12/2002	8.42		-10.30		-22.12	10.53	*	8.43	-10.30	-22.11	10.30
03/2003	-3.16					9.77	*	-3.15			9.55
06/2003	15.36		11.71			11.33	*	15.40	11.77		11.11
09/2003	2.63					11.31	*	2.64			11.11
12/2003	12.10		15.05		28.53	12.40	*	12.18	15.14	28.69	12.21
03/2004	1.67					12.25	*	1.70			12.06
06/2004	1.72	*	3.42			12.11	*	1.71	3.44		11.93
09/2004	-1.87	*				11.56	*	-1.87			11.39
12/2004	9.21		7.17		10.83	12.24	*	9.23	7.19	10.87	12.07
03/2005	-2.12	*				11.69	*	-2.15			11.52
06/2005	1.37	*	-0.78	*		11.54	*	1.36	-0.82		11.38
09/2005	3.59					11.63	*	3.61			11.47
12/2005	2.08		5.74		4.92	11.56	*	2.09	5.77	4.90	11.40
03/2006	4.11					11.69	*	4.21			11.54
06/2006	-1.50		2.55			11.27	*	-1.44	2.71		11.14
09/2006	5.60					11.53	*	5.67			11.41
12/2006	6.60		12.57		15.44	11.87	*	6.70	12.74	15.80	11.76
03/2007	0.61					11.67	*	0.64			11.56
06/2007	6.20		6.84			11.97	*	6.28	6.96		11.86
09/2007	1.96					11.89	*	2.03			11.79

THE ASTERISKS INDICATE THOSE PERIODS DURING WHICH THE TOTAL FUND OUTPERFORMED THE S&P 500.



**PRINCIPAL LARGE CAP STOCK INDEX  
TOTAL FUND TIME WEIGHTED RATES OF RETURN**

THE POLICY INDEX REFLECTS THE RETURNS OF THE MANAGER'S ASSET  
ALLOCATION IF INVESTED IN THE MARKETS REPRESENTED BY THE FOLLOWING INDEXES:

12/31/1994 - PRESENT  
100% S&P 500

*THE ASTERISKS INDICATE THOSE PERIODS DURING WHICH THE TOTAL FUND OUTPERFORMED THE S&P 500.*

**PRINCIPAL INTERNATIONAL STOCK  
TOTAL FUND TIME WEIGHTED RATES OF RETURN**

DATE	ACCOUNT					MSCI NET EAFE				
	QUARTERLY	SEMI ANNUALLY	ANNUALLY		SINCE 12/1994	QUARTERLY	SEMI ANNUALLY	ANNUALLY		SINCE 12/1994
03/1995	-0.66				-0.66	1.87				1.87
06/1995	9.50	*	8.78	*	8.78	0.73	2.61			2.61
09/1995	5.14	*			14.37	4.18				6.90
12/1995	1.88		7.12		16.52	4.05	8.39	11.22		11.22
03/1996	8.60	*			20.72	2.89				11.39
06/1996	4.19	*	13.15	*	20.24	1.59	4.52			10.56
09/1996	3.20	*			19.24	-0.12				8.91
12/1996	8.40	*	11.87	*	21.45	1.59	1.47	6.06		8.61
03/1997	3.66	*			20.77	-1.56				6.87
06/1997	10.83		14.89	*	23.48	12.97	11.21			11.47
09/1997	5.70	*			23.61	-0.70				10.09
12/1997	-5.72	*	-0.35	*	19.08	-7.84	-8.48	1.77		6.28
03/1998	15.53	*			22.83	14.71				10.35
06/1998	-0.26		15.23		20.95	1.07	15.94			9.91
09/1998	-17.09				13.60	-14.22				4.84
12/1998	17.71		-2.41		17.39	20.65	3.49	19.99		9.55
03/1999	3.22	*			17.16	1.39				9.32
06/1999	2.95	*	6.26	*	16.88	2.54	3.96			9.39
09/1999	2.66				16.57	4.39				9.86
12/1999	16.21		19.30		19.21	16.99	22.13	26.97		12.83
03/2000	3.60	*			19.01	-0.10				12.16
06/2000	-1.33	*	2.22	*	17.79	-3.96	-4.06			10.76
09/2000	-9.24				15.00	-8.06				8.67
12/2000	0.83	*	-8.49	*	14.49	-2.69	-10.53	-14.16		7.81
03/2001	3.60	*			14.52	-13.71				4.98
06/2001	-0.75	*	2.82	*	13.79	-1.05	-14.61			4.61
09/2001	-15.01				10.55	-14.00				2.13

THE ASTERISKS INDICATE THOSE PERIODS DURING WHICH THE TOTAL FUND OUTPERFORMED THE MSCI NET EAFE.

**PRINCIPAL INTERNATIONAL STOCK  
TOTAL FUND TIME WEIGHTED RATES OF RETURN**

DATE	ACCOUNT							MSCI NET EAFE				
	QUARTERLY	SEMI	ANNUALLY	ANNUALLY			SINCE	QUARTERLY	SEMI	ANNUALLY	SINCE	
							12/1994				12/1994	
12/2001	9.47	*	-6.96	*	-4.33	*	11.59	*	6.98	-7.99	-21.44	3.04
03/2002	-0.48						11.09	*	0.51			3.01
06/2002	-1.43	*	-1.90				10.49	*	-2.12	-1.62		2.61
09/2002	-18.28	*					7.31	*	-19.73			-0.34
12/2002	6.47	*	-12.99	*	-14.65	*	7.91	*	6.45	-14.56	-15.94	0.45
03/2003	-7.88	*					6.60	*	-8.20			-0.60
06/2003	17.86		8.57				8.47	*	19.27	9.49		1.50
09/2003	5.62						8.90	*	8.12			2.37
12/2003	17.72	*	24.34		34.99		10.63	*	17.08	26.59	38.60	4.11
03/2004	4.24						10.82	*	4.34			4.48
06/2004	-0.77		3.44				10.44	*	0.22	4.56		4.38
09/2004	1.89	*					10.37	*	-0.28			4.23
12/2004	15.94	*	18.13	*	22.19	*	11.74	*	15.32	15.00	20.24	5.62
03/2005	0.90	*					11.53	*	-0.17			5.46
06/2005	1.62	*	2.53	*			11.41	*	-1.01	-1.17		5.23
09/2005	15.34	*					12.62	*	10.38			6.07
12/2005	6.01	*	22.27	*	25.37	*	12.91	*	4.08	14.88	13.54	6.32
03/2006	11.91	*					13.74	*	9.40			7.02
06/2006	-0.08		11.81	*			13.41	*	0.70	10.16		6.93
09/2006	2.63						13.36	*	3.93			7.13
12/2006	11.51	*	14.44		27.96	*	14.09	*	10.35	14.69	26.34	7.86
03/2007	3.61						14.12	*	4.08			8.04
06/2007	8.88	*	12.81	*			14.59	*	6.40	10.74		8.41
09/2007	4.77	*					14.71	*	2.18			8.42

THE ASTERISKS INDICATE THOSE PERIODS DURING WHICH THE TOTAL FUND OUTPERFORMED THE MSCI NET EAFE.

**PRINCIPAL INTERNATIONAL STOCK**  
**TOTAL FUND TIME WEIGHTED RATES OF RETURN**

THE POLICY INDEX REFLECTS THE RETURNS OF THE MANAGER'S ASSET  
ALLOCATION IF INVESTED IN THE MARKETS REPRESENTED BY THE FOLLOWING INDEXES:

12/31/1994 - PRESENT  
100% MSCI NET EAFE

*THE ASTERISKS INDICATE THOSE PERIODS DURING WHICH THE TOTAL FUND OUTPERFORMED THE MSCI NET EAFE.*

### PRINCIPAL BOND AND MORTGAGE TOTAL FUND TIME WEIGHTED RATES OF RETURN

DATE	ACCOUNT						LB AGGREGATE BOND			
	QUARTERLY	SEMI	ANNUALLY	ANNUALLY	SINCE	12/1994	QUARTERLY	SEMI	ANNUALLY	SINCE
03/1995	5.28	*			5.28	*	5.04			5.04
06/1995	6.51	*	12.13	*	12.13	*	6.09	11.44		11.44
09/1995	2.05	*			14.43	*	1.96			13.63
12/1995	4.65	*	6.80	*	19.75	*	4.26	6.31	18.47	18.47
03/1996	-1.26	*			14.35	*	-1.77			12.89
06/1996	0.66	*	-0.61	*	12.31	*	0.57	-1.21		11.06
09/1996	2.34	*			11.93	*	1.85			10.55
12/1996	3.37	*	5.79	*	12.21	*	3.00	4.90	3.63	10.80
03/1997	0.07	*			10.82	*	-0.56			9.27
06/1997	4.35	*	4.42	*	11.57	*	3.68	3.10		9.89
09/1997	3.69	*			11.93	*	3.33			10.26
12/1997	2.92		6.72	*	11.95	*	2.95	6.38	9.68	10.43
03/1998	1.96	*			11.65	*	1.54			10.10
06/1998	2.52	*	4.53	*	11.57	*	2.34	3.92		10.07
09/1998	3.83				11.87	*	4.23			10.59
12/1998	0.64	*	4.49		11.27	*	0.34	4.58	8.67	9.99
03/1999	0.39	*			10.67	*	-0.51			9.24
06/1999	-0.89		-0.50	*	9.83	*	-0.88	-1.38		8.49
09/1999	1.07	*			9.53	*	0.68			8.18
12/1999	0.04	*	1.11	*	9.05	*	-0.12	0.56	-0.83	7.73
03/2000	2.64	*			9.14	*	2.21			7.80
06/2000	1.82	*	4.51	*	9.06	*	1.73	3.98		7.77
09/2000	3.43	*			9.29	*	3.02			7.97
12/2000	4.62	*	8.21	*	13.09	*	4.21	7.36	11.63	8.37
03/2001	2.64				9.76	*	3.03			8.54
06/2001	0.91	*	3.57		9.52	*	0.56	3.60		8.29
09/2001	4.74	*			9.90	*	4.62			8.70

THE ASTERISKS INDICATE THOSE PERIODS DURING WHICH THE TOTAL FUND OUTPERFORMED THE LB AGGREGATE BOND.

### PRINCIPAL BOND AND MORTGAGE TOTAL FUND TIME WEIGHTED RATES OF RETURN

DATE	ACCOUNT					LB AGGREGATE BOND				
	QUARTERLY	SEMI ANNUALLY	ANNUALLY		SINCE 12/1994	QUARTERLY	SEMI ANNUALLY	ANNUALLY		SINCE 12/1994
12/2001	-0.09	4.65	8.39		9.52 *	0.04	4.65	8.42		8.38
03/2002	0.17 *				9.20 *	0.10				8.09
06/2002	3.76 *	3.94 *			9.42 *	3.70	3.80			8.34
09/2002	4.57				9.73 *	4.59				8.69
12/2002	1.67 *	6.32 *	10.50 *		9.64 *	1.57	6.23	10.27		8.61
03/2003	1.72 *				9.56 *	1.39				8.52
06/2003	2.92 *	4.69 *			9.64 *	2.50	3.92			8.58
09/2003	0.06 *				9.36 *	-0.14				8.30
12/2003	0.96 *	1.02 *	5.76 *		9.20 *	0.32	0.18	4.11		8.10
03/2004	2.95 *				9.29 *	2.65				8.18
06/2004	-2.12 *	0.77 *			8.79 *	-2.44	0.15			7.68
09/2004	3.42 *				8.93 *	3.20				7.82
12/2004	1.33 *	4.80 *	5.60 *		8.84 *	0.95	4.18	4.34		7.72
03/2005	-0.36 *				8.57 *	-0.48				7.48
06/2005	2.96	2.59 *			8.66 *	3.01	2.52			7.60
09/2005	-0.16 *				8.44 *	-0.68				7.34
12/2005	0.80 *	0.64 *	3.24 *		8.32 *	0.59	-0.09	2.43		7.23
03/2006	-0.48 *				8.08 *	-0.64				7.00
06/2006	-0.19	-0.67 *			7.88 *	-0.08	-0.72			6.84
09/2006	3.91 *				8.06 *	3.81				7.03
12/2006	1.53 *	5.50 *	4.79 *		8.02 *	1.24	5.09	4.33		6.98
03/2007	1.62 *				7.99 *	1.50				6.97
06/2007	-0.86	0.74			7.75 *	-0.52	0.97			6.78
09/2007	1.79				7.74 *	2.85				6.88

THE ASTERISKS INDICATE THOSE PERIODS DURING WHICH THE TOTAL FUND OUTPERFORMED THE LB AGGREGATE BOND.

**PRINCIPAL BOND AND MORTGAGE  
TOTAL FUND TIME WEIGHTED RATES OF RETURN**

THE POLICY INDEX REFLECTS THE RETURNS OF THE MANAGER'S ASSET  
ALLOCATION IF INVESTED IN THE MARKETS REPRESENTED BY THE FOLLOWING INDEXES:

12/31/1994 - PRESENT  
100% LB AGGREGATE BOND

*THE ASTERISKS INDICATE THOSE PERIODS DURING WHICH THE TOTAL FUND OUTPERFORMED THE LB AGGREGATE BOND.*

**COMPOSITE  
TOTAL FUND POLICY INDEX**

**TOTAL FUND BENCHMARK**

01/31/1995 - Present

50%	S&P 500
35%	LB AGGREGATE BOND
15%	MSCI NET EAFE



## COMPOSITE RISK MEASURES REPORT EXPLANATION

The evaluation of a fund's performance should extend beyond return to encompass measures of risk. The following page is used to determine the level of risk to which the fund has been exposed, and whether the return has been commensurate with the risk taken. All measures are calculated for both the fund and the policy as well as the difference between the two. Up to four time periods are evaluated depending on the age of the fund.

**# Of Negative Qtrs/# Of Positive Qtrs:** Number of negative quarters shows the number of quarters in which the return was less than zero, and the number of positive quarters is the number of quarterly returns which were greater or equal to zero.

**Batting Average:** The batting average is a measure of consistency. It shows the percent of the quarters the fund has beaten the policy and the percent of the quarters the policy has beat the fund. A high average for the fund (e.g. over 50) is desirable, indicating the fund has beaten the policy frequently.

**Worst Quarter/Best Quarter/Range:** The worst quarter is the lowest quarterly return experienced during the period, a measure of downside risk. The best quarter is the highest quarterly return, and the range is the difference of the high and low, and indicates dispersion.

**Worst 4 Quarters:** The four consecutive quarters during which the portfolio realized its worst cumulative performance since its inception.

**Standard Deviation:** Standard deviation measures the total volatility of the fund, by measuring dispersion. Higher standard deviation indicates higher risk. If the quarterly or monthly returns are all the same the standard deviation will be zero. The more they vary from one another, the higher the standard deviation. Thus, it measures uncertainty, which is a measure of risk.

**Alpha/Beta/R-Squared:** If the policy is appropriate, then the alpha should be positive, the beta close to one, and the r-squared should be high. Beta measures risk relative to the policy. A beta of 1 suggests risk equivalent to the policy. Higher betas indicate higher relative risk. A beta of 1.2 indicates 20% more risk than the policy. The alpha measures the return adjusting for beta. The higher the alpha, the better. R-squared measures the relationship between the policy and the fund. A high r-squared means the returns of the fund can largely be explained by movements of the policy. The higher the r-squared, the more reliable the alpha and the beta. R-squared may range from 0 to 100. Beta, alpha and r-squared are derived from regression analysis using the fund and policy returns as the dependent and independent variables respectively. Roughly, one would expect the fund's performance to equal the return of the policy multiplied by the beta plus the alpha.

**Sharpe Ratio/Treynor Ratio:** The Sharpe and Treynor ratios are similar. The Sharpe ratio is the excess return per unit of total risk as measured by standard deviation. The Treynor ratio is the excess return per unit of market risk as measured by beta. Both of these should be compared against the corresponding value for the policy. Higher numbers are better, indicating more return for the level of risk that was experienced.

**Tracking Error/Information Ratio:** Tracking error is the standard deviation of the portfolio's residual (i.e., excess) returns. The lower the tracking error, the closer the portfolio returns have been to its risk index. Aggressively managed portfolios would be expected to have higher tracking errors than portfolios with a more conservative investment style. The information ratio is equal to the annualized excess return of the portfolio divided by the standard deviation of its annualized excess returns (i.e., the tracking error). The statistic can be used to compare added value of more than one portfolio – a low relative return and low tracking risk portfolio can have the same value added as a portfolio with high relative return and high tracking risk. The information ratio is a measure of the efficiency with which the excess returns have been generated. Since the information ratio is a determination of the value added vis-à-vis the risk benchmark, the higher the ratio, the better.